G:ENESIS

SADC Microfinance Study

Landscape, regulatory environment, level of monitoring and support

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Obviously the views expressed in this document, along with any errors and omissions, are solely those of the authors.

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List of Acronyms

AfDB	African Development Bank
BON	Bank of Namibia
BOT	Bank of Tanzania
BOZ	Bank of Zambia
CBZ	Commercial Bank of Zimbabwe
CCBG	Committee of Central Bank Governors
CEDA	Community and Economic Development Association
CEO	Chief Executive Officer
CETZAM	Christian Enterprise Trust of Zambia
CFI	Credit Financial Institution
CGAP	Consultative Group to Assist the Poor
CPA	Certified Public Accountant
CRDB	Cooperative and Rural Development Bank (Tanzania)
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry (South Africa)
FIA	Financial Institutions Act (Lesotho)
FINCA	Foundation for International Community Assistance
FPM	Fonds de Promotion de la Microfinance
FSDP	Financial Sector Development Plan (Zambia)
IDC	Industrial Development Corporation (South Africa)
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
KYC	Know Your Customer
MARDEF	Malawi Rural Development Fund
MFI	Microfinance Institution
MoF	Ministry of Finance
MIX	Microfinance Information Exchange
MRFC	Malawi Rural Finance Company
MSME	Micro Small and Medium Enterprise
NAMFISA	Namibian Financial Institutions Regulatory Authority
NBC	National Bank of Commerce (Tanzania)
NBFI	Non- Bank Financial Institution
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NCA	National Credit Act (South Africa)
NDB	National Development Bank (Botswana)
NGO	Non- Governmental Organisation
NMB	National Microfinance Bank (Tanzania)
PAR	Portfolio at Risk
PASMIF	Program of Support to Microfinance Sector
RBM	Reserve Bank of Malawi
RBRM	Risk Based Regulatory Model
RFEDP	Rural Finance and Enterprise Development Program (Swaziland)
SACCO	Savings and Credit Cooperative

SADC	Southern African Development Community
SAMAF	South African Microfinance Apex Fund
SAMCAF	Southern Africa Microfinance and Enterprise Enhancement Facility
SEF	Small Enterprise Foundation (South Africa)
SME	Small and Medium Enterprise
SUFIL	Support to Financial Inclusion in Lesotho
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
US$	United States Dollar
USAID	United States Agency for International Development
WDB	Women’s Development Business (South Africa)
WOCCU	World Council of Credit Unions
ZAMFI	Zimbabwe Association of Microfinance Institutions

EXECUTIVE SUMMARY

Context

A process of the SADC Committee for Central Bank Governors (CCBG) engaging with the microfinance and regulatory environment in SADC began in 2001, with aid from the ILO and work conducted by Zimbabwean consulting firm, Southern Africa Micro-finance and Enterprise Capacity Enhancement Facility (SAMCAF). SAMCAF outlined the state of the microfinance industry in each SADC country, with particular attention on the state of regulation of MFIs within these countries. The findings concluded that significant information gaps on MFIs and the industry exist throughout the SADC region, affecting the ability of policy formulation and regulatory design. The effect had been little or no microfinance policy frameworks in place in the majority of countries within SADC at that time. In particular the report called for improved monitoring and understanding of the sector which would assist regulators in developing appropriate microfinance policies and regulations. The report also called for harmonization. Despite developing an action plan, the process was terminated prematurely in 2004 due to a lack of funding.

This paper, through the financial support of the FinMark Trust, and with the backing of the CCBG, primarily aims to present the overarching SADC trends in terms of regulatory environments, support mechanisms, monitoring frameworks, and level of microfinance activity. In addition, the report makes recommendations to regulators, CCBG and FinMark Trust in terms of the key areas requiring attention.

Microfinance lending

The lack of publically available data that SAMCAF experienced in 2003 is unfortunately still a prominent feature of the microfinance sector in SADC. Drawing on limited data from central banks, as well as secondary sources (such as Mix Market, CGAP and the World Council of Credit Unions (WOCCU), institutions' websites and annual reports, and data from previous country level and regional research) it is however possible to provide an overview of lending in SADC.

Since 2003, there are reports of a strong upward trend across SADC in the value of microfinance loans disbursed and the number of clients served.

The last decade has seen an influx of for-profit non-bank financial institutions targeting salary-based consumer lending and in some instances microenterprise lending. Commercial banks, which have traditionally been reluctant to lend to this end of the market have also started to down-scale their operations in search of new customers, and reportedly reach the largest proportion of borrowers in the region.

SACCOS also present an important source of financial services in SADC; with over US$400 million in savings and over US$300 million in loans across the region. NGOs, both national and international, are still present in SADC and are perhaps the best providers of rural finance due to their social rather than profit objective. However, most NGOs have not reached any significant scale in SADC and often battle with self sustainability.

State of Regulation

The majority of SADC governments have either already enacted microfinance legislation and published regulations or are in the process of developing suitable frameworks, such as in Lesotho and Namibia. Only Mauritius and Seychelles have no intention of developing a regulatory framework specific to microfinance.

Regulatory principles: Consultative Group to Assist the Poor (CGAP) developed and released a set of "Guiding Principles on Regulation and Supervision of Microfinance" in 2003[1]. The principles span prudential and non-prudential regulatory issues and form the basis by which microfinance regulation in SADC is assessed in this report.

Non prudential regulation: Most markets lack any significant consumer protection and the presence of credit bureaus. Most regulators interviewed did however express this as a concern and an area requiring attention. Also of concern was the number of countries that still have interest rate limits in place.

Prudential Regulation:

Some of the most relevant principles relate to:

i. **The issue of allowing for deposit-taking MFIs** – There are clearly funding advantages of allowing deposit-taking MFIs; however in many countries the minimum capital requirements asked of MFIs is very low in comparison to that required for commercial banks. Going forward it will be important to monitor these institutions to determine whether these smaller institutions with limited capital can support the necessary investment in the management information systems, and other infrastructure, required to safely accept deposits.

ii. **Extending prudential regulation to deposit-taking institutions only** – Credit only institutions are subject to prudential regulations in four countries, despite this not being in line with the proposed CGAP principles, and the objective of these regulations not always being very clear. These requirements should be reconsidered.

iii. **Prudentially regulating large SACCOS** - As it currently stands, half of the countries reviewed prudentially regulate SACCOS, with five of the fourteen countries restricting prudential regulation only to 'large' SACCOS. This is important as members of large SACCOS often have very limited control of the management of the SACCO and thus require protection.

iv. C**onditionally allowing the acceptance of forced savings by credit only MFIs** - The issue of forced savings is treated very differently across countries. While these are treated as deposits in some countries such as Angola, Tanzania and Zambia and require deposit-taking licenses in order to continue the activity, in other countries such as DRC and Mozambique, the practice is allowed but institutions are regulated against on-lending these funds.

Extent of Monitoring

Despite the acknowledgement of the need for, and importance of, improved monitoring of the sector, progress on this front has been very limited. The initial 2001 process had reportedly initiated the development of a central SADC microfinance 'databank'; however no evidence of such a databank currently exists. Not only are countries generally not monitoring their sectors effectively enough, but even where data is gathered (predominantly from prudentially regulated institutions) it is generally not made publically available. In addition to this lack of reporting by MFIs, commercial banks are generally not required to report at a sufficiently segmented level to enable industry stakeholders to get a sense of the contribution that commercial banks make to microfinance. Improving monitoring and data reporting must be a key area of focus for SADC microfinance regulators going forward.

[1] Which are in the process of being updated.

Most central banks face severe capacity constraints. As such, much thought should be given to the thresholds below which reporting should not be required. Clearly any regulations introduced must be aligned to the supervisory capacity of the regulator.

Extent of Support

MFIs typically face severe funding constraints; and are in need of institutional support which includes technical assistance and know-how, capacity building initiatives to promote the development of staff, and systems support. Support of this nature typically emanate from three main sources: i) government; ii) donors; and iii) microfinance associations.

Government support for the microfinance sector in SADC typically involves: i) investing in improving the legislative and regulatory environment; ii) the provision of wholesale funding; and iii) the direct provision of financial services targeting low income segments. In terms of the provision of funding, there is still a concerning amount of direct government provision, without sufficient consideration of how best to leverage and spur the capabilities within the private sector. On the positive side, some of the more recent support interventions seem to be acknowledging the benefit of private sector provision, even at the level of the management of apex funds.

Donors typically play a role in providing: i) direct support to the sector, either in the form of loan funding for on lending or grant funding for institutional support; ii) broader financial sector support; and iii) support to government, most notably to support the development of a suitable policy and regulatory framework and developing regulatory capacity. Despite the positive role that donors play, it is important to note that their contribution to microfinance in SADC has been impacted by the global crisis.

In countries where associations are present they typically strive to support member institutions through a combination of the following: i) technical assistance and training; ii) lobbying with government to influence policy change; iii) helping members solicit finance through the private sector and international donors; and iv) in some cases compiling, storing and disseminating data and information to members. The general status on associations throughout SADC is that while associations are still committed to supporting members, lack of funding, lost donor support and significant resource constraints have resulted in reduced support activity.

Unfortunately there are no easy and obvious solutions to these constraints that should be implemented across the board. Arguably the most interesting development, however, has been the recent move in DRC and Zimbabwe to allow industry assistance mechanisms (such as apex and technical assistance funds) to be run by the private sector.

Conclusions and Recommendations

The report has highlighted a number of key findings on the progress on the state of microfinance and regulation in SADC since the report by SAMCAF. Firstly, despite the acknowledgement of the need for, and importance of, improved monitoring of the sector, progress on this front has been very limited. Secondly, and more positively, there has been significant progress in terms of introducing regulations catering for microfinance; with a move towards formal financial integration of microfinance in the region.

Specific country level recommendations are made in the associated country reports; however at a high level CCBG, FinMark Trust and country level regulators should consider the following:

- **Regulator engagement**: As a first step, FinMark should engage with country regulators on the content of the country level reports and the recommendations therein. These discussions could be useful in terms of identifying specific areas that regulators require assistance with, and which are aligned to FinMark's core mandate which is to make financial markets work for the poor.

- **Regulation**: FinMark, as well as other donors, can play a valuable role in terms of communicating regulatory successes and failures, as well as in terms of supporting the development of regulatory changes where required. The key regulatory issues requiring attention include the treatment of forced savings, prudential regulation of credit-only MFIs, setting the minimum capital requirements for deposit taking MFIs, interest rate caps, and consumer protection.

- **Monitoring:** At this stage priority should be given to the country level collection, and public dissemination, of relevant data. There is need for: i) a support role in terms of advising countries on the type of data that is required; and ii) technical assistance at the country level in terms of the process of collecting the necessary data, developing an appropriate database, managing and maintaining the database, and publishing the data. Both FinMark and CCBG could play a facilitative role in this.

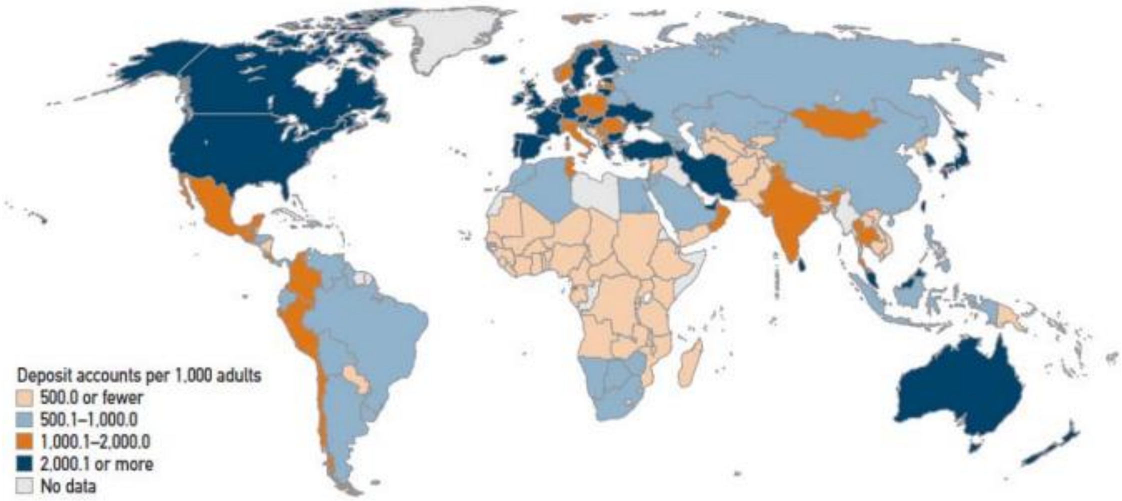
- **Impact assessments:** Given the differences that exist in the current regulatory environments and support mechanisms across the region, the need for independent impact assessments is great. Improved monitoring and impact assessments are critical in terms of allowing countries to learn from each other.

- **The role of government:** Although the provision of government wholesale funding is welcomed, wherever possible governments should look to leverage the private sector rather than play a direct (retail) role in the provision of microfinance.

1. INTRODUCTION

SADC has some of the most underdeveloped economies in the world but has made significant strides in promoting access to financial services. Financial inclusion forms an important element of the development agenda, and has involved a number of interventions, spanning liberalisation, direct government programmes, legislative reform, and participatory and voluntary engagement from the private sector. Nonetheless, access to financial services remains weaker in Southern Africa than in other developing parts of the world and further interventions are required to address the shortfalls in financial access that still exist (see Figure 1 below).

Figure 1: Number of deposit accounts in banks and regulated non-bank financial institutions per thousand adults



Source: World Bank, Measuring Financial Access around the World, 2010

* Predicted values were used where data was not available

One of the main tools that governments have at their disposal to increase the levels of financial access relates to the regulatory environment governing microfinance (broadly defined). However, this obviously needs to be understood in the context of the notable trade-offs that exist between increasing financial access versus protecting borrowers and ensuring the safety of depositors' funds.

Governments, donors and other stakeholders also have various ways of supporting microfinance. As with regulation, there is unfortunately not a one-size-fits-all approach. However, as with regulation, there are some lessons and general principles that should be adhered to when developing appropriate support mechanisms.

This paper, through the financial support of the FinMark Trust, and with the backing of the SADC Committee for Central Bank Governors (CCBG), aims to:

1. Provide a summary of the previous work that was done on this topic for the CCBG in 2003;

2. Introduce general microfinance regulatory principles for consideration by regulators[2];

3. Present the overarching SADC trends in terms of regulatory environments, support mechanisms, monitoring frameworks, and level of microfinance activity[3] ; and

4. Make recommendations to regulators, CCBG and FinMark Trust in terms of the key areas for potential improvement in the various regulatory frameworks; as well as in the support mechanisms and the approach to monitoring.

Given the lack of availability of data, particularly in terms of the level of microfinance activity, the approach in researching this paper was diverse in nature. In addition to interviews with regulators and other key stakeholders[4] (most notably including microfinance associations – where they exist), the team developed an electronic survey requesting country level data on microfinance activity, the regulatory environment, the level of monitoring and the nature of support for MFIs[5]. The final leg of the research methodology revolved around desktop research, which was primarily used to supplement the information obtained through the interviews and surveys, but also included a review of the previous work done for the CCBG by the ILO in 2003.

The remainder of this report is broken down as follows: Section 2 provides some context on the project; including a brief introduction to the earlier work done on this topic by the ILO in 2003. Section 3 then provides a brief summary of the main findings and recommendations of that report[6]. Section 4 then presents the regulatory principles which guide the framework that has been used to compare the current regulations across the region. It should be noted that this work draws on principles developed by the Consultative Group to Assist the Poor (CGAP). Section 5 presents a high level regional view of i) the type of microfinance activity that is currently taking place; ii) the current regulatory environments, compared across countries; iii) the level of monitoring, and progress following recommendations made in the previous work; and iv) the level of, and types of, support for microfinance institutions in the region. Section 6 then concludes the main report, offering regional conclusions and recommendations.

It should be noted that this report is effectively a regional summary report drawing from the individual country reports that have been drafted as part of this project. Readers looking for more detail on a specific country should refer to the respective country report[7].

2. CONTEXT

Despite lessons on effective regulations available from around the world, and despite the recognition of the importance of microfinance in providing financial services in developing countries, as of the last formal review in 2003, policy and regulatory aspects of microfinance were not clearly defined in the majority of SADC member states. SADC members recognised this as a weakness and sought to encourage the development of the microfinance sector through i) better understanding the level of microfinance activity in each country through the

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[2] As discussed below these principles are drawn from the comprehensive work that CGAP has done on microfinance regulation.
[3] For more detail, readers should revert to the more detailed country reports which have been developed as part of this research project.
[4] Interviews were conducted in country with ten member states, with the remaining four countries being interviewed telephonically.
[5] This survey was sent to the regulator in each active SADC member state, as well as to a number of microfinance associations.
[6] This report is largely a follow up on the work previously driven by the ILO, which culminated in a report to the CCBG.
[7] It should be noted that as a result of Madagascar's current suspension from SADC, it has not been included in this report.

development of a microfinance databank; and ii) exchanging information on best practice policy and regulation between partner states[8].

The weaknesses of the microfinance market and the regulatory frameworks were first formally tabled with the publishing of a report to the CCBG in 2003. The report was compiled by a Zimbabwean-based microfinance consulting firm called Southern Africa Micro-finance and Enterprise Capacity Enhancement Facility (SAMCAF) on behalf of the International Labour Organisation (ILO).

SAMCAF outlined the state of the microfinance industry in each SADC country, with particular attention on the state of regulation of MFIs within these countries[9]. The findings concluded that significant information gaps on MFIs and the industry exist throughout the SADC region, affecting the ability of policy formulation and regulatory design. The effect had been little or no microfinance policy frameworks in place in the majority of countries within SADC at that time.

In January 2004, following publication of the report by SAMCAF, the ILO and CCBG Secretariat developed an action plan outlining focal points for each of their respective institutions. Due to lack of funds, a second round of data was unable to be collected and the microfinance study terminated prematurely in 2004.

Through renewed calls by the CCBG Secretariat, and funding from the FinMark Trust, this report provides an update on the microfinance industry in SADC.

3. OVERVIEW OF RECOMMENDATIONS FROM THE BASELINE STUDY[10]

SAMCAF, in its initial 2003 review of microfinance in SADC, attempted to gauge demand, supply and regulation across the region, and to arrive at a core set of recommendations for CCBG[11]. At the time of writing, SAMCAF reported that microfinance in SADC was still in its infancy (with institutions having an average age of 7.7 years), and as a result its impact in, and importance to, the financial sector was still uncertain. Further, microfinance policies and regulations were still generally not well defined.

Microfinance in the SADC region was characterized by: i) low levels of sustainability, with an average operating self sustainability[12] ratio of 87.7%; ii) a focus on urban areas; and iii) lower levels of outreach than in the rest of the world.

To address these weaknesses, SAMCAF recommended the following:

1. For governments to institute adequate microfinance **policy frameworks**, firstly to signal the importance of microfinance and secondly, to outline the role of microfinance in their respective economies.

2. To outline a suitable **regulatory framework** for the sector. To this end, SAMCAF recommended that governments look to integrate microfinance into the formal financial

[8] (International Labour Organisation – Social Finance Programme, 2003)
[9] (International Labour Organisation – Social Finance Programme, 2003)
[10] (International Labour Organisation – Social Finance Programme, 2003)
[11] (International Labour Organisation – Social Finance Programme, 2003)
[12] Operating self sustainability refers to the ability of an institution to cover its operating costs without external or non-business related assistance. 100% suggests break even, while anything less than 100% suggests that an institution is not self sustainable.

sector. Lack of integration, it was argued, would present microfinance in isolation to the rest of the financial sector and would exclude microfinance sectors from formal development plans. The recommendation envisioned converting MFIs into commercially oriented and profitable financial intermediaries, thereby creating a more competitive environment, especially at lower segments of the population.

3. To address the **lack of understanding and knowledge of the sector** that central banks experienced (given that they typically focused on commercial banks). This lack of understanding was viewed as a key reason why central banks were 'avoiding' regulating microfinance. At the same time SAMCAF advised caution in terms of understanding the sector prior to introducing regulation.

4. That central banks, along with relevant government departments and microfinance associations, formulate strategies to improve **the level of monitoring** of the sector. This was primarily to address one of the key constraints identified by SAMCAF, which was a lack of information on the microfinance sector across the region. The intention was for this data to assist in improving the understanding of the sector and thus also improve the ability to develop appropriate microfinance policies and regulations.

5. A process of **harmonisation** of microfinance regulation and supervision within SADC countries. This was recommended in order to move away from the "fragmented, and often conflicting"[13] microfinance regulations within a number of countries. .

6. To improve the ability of MFIs to **enforce contracts**. The high levels of non-repayment were deemed to be a key constraint to MFIs, particularly in countries such as Zambia, Zimbabwe and Swaziland where non-repayment levels were often severe and detrimental to institutional survival. Where collateral was taken, the relative cost of recovery was deemed prohibitively high for low value loans.

SAMCAF also highlighted that governments often played a market distorting role, providing finance at highly subsidised interest rates, and fostering non-repayment; often undermining the ability of privately owned MFIs to achieve self sustainability. Although SAMCAF expressed this as a concern, no exact recommendation was given on this front.

In terms of regulations, recommendations were made relating to specific principles based on information SAMCAF received through its regional workshop on regulation and supervision of MFIs in October 2003. By and large these recommendations were in line with the CGAP principles which are presented in the next section.

Progress since the report: There has been mixed progress since the SAMCAF report. Arguably the most notable area of change includes the introduction of microfinance policies; and subsequently the development of microfinance regulations in a number of SADC countries; with full or partial integration into the formal financial system. While some countries have had Acts and regulations in place for some time, others have only recently released these; while others are still in the process of finalising or releasing specific microfinance Acts or the associated regulations[14].

While the SAMCAF report had called for improved monitoring of the sector, in part to assist with the development of tailored regulations based on current activity; the regulations have

[13] (International Labour Organisation – Social Finance Programme, 2003, p.27)
[14] The types of regulations introduced, and the appropriateness of those regulations, are discussed in section 5.

largely been introduced in the absence of good industry level data and monitoring. In particular, the SAMCAF report called for the development of a SADC microfinance ‘data bank’ to improve monitoring and information sharing; however, no progress has been made on this front. In fact, many policy makers and MFI practitioners were unaware that such an initiative was even tabled.

Countries often have information on those institutions which are now regulated prudentially; however, the activity of those institutions not prudentially regulated remains largely unknown in almost all instances. Tanzania has been very active in gathering information on the broader sector; however, have not yet been able to capture the information in any form of database.

While some governments have been trying to exit the microfinance market, there are a number of countries where government still plays a potentially distorting, direct-financing role; mostly providing subsidised loans and often accepting high levels of non-performing loans. There are, however, other governments which strive to leverage the private sector by providing wholesale funding, without directly entering the market.

4. REGULATORY AND SUPERVISORY PRINCIPLES

In September 2002 CGAPs 29 donor agencies formally adopted a set of “Guiding Principles on Regulation and Supervision of Microfinance”[15]. The related report, published in 2003, outlines these regulatory and supervisory principles, while also discussing various regulatory challenges and tradeoffs. This section of the report summarises the key principles, as they relate to the regulation and supervision of microfinance in the SADC region. It should be noted that these principles only offer specific recommendations in certain instances; whereas for other issues they merely note the importance of local conditions, and highlight the specific factors that should be taken into consideration in designing regulations[16,17].

The purpose of including this regulatory discussion upfront is that it forms the basis of the framework that has been used to compare the current regulations across the region in section 5.

4.1. REGULATORY PRINCIPLES

4.1.1. General Issues

Prudential versus non-prudential: The first point to note is the differentiation between prudential and non-prudential regulation or supervision; where prudential regulation or supervision “governs the financial soundness of licensed intermediaries’ business, in order to **prevent financial-system instability** and **losses to small, unsophisticated depositors**”[18]. While financial stability concerns may become an issue in the future, for the most part microfinance is small relative to the broader financial systems of SADC countries and thus not currently much of a systemic threat. The main focus of **prudential regulation** for microfinance in SADC is therefore **to protect customer deposits**.

[15] (Christen; Lyman & Rosenberg, 2003)
[16] Given the developments to microfinance since 2003, CGAP released a “public comment version” update to this report in 2011, which has also been drawn on in developing a framework with which to discuss the regulation of microfinance in the SADC region (Christen, Lauer, Lyman, & Rosenburg, 2011).
[17] This section draws heavily on the comprehensive work done by CGAP in this area. Further, subsequent sections of the report, and in particular the individuals country reports, also make reference to the CGAP principles.
[18](Christen; Lyman & Rosenberg, 2003)

This leads to the first, and perhaps the most important principle, which is, given that prudential requirements are typically more expensive and complex to implement, and require the attention of a specialised financial authority, it is only advisable to prudentially regulate microfinance institutions if they are **deposit-taking**.

For credit-only institutions, regulators and supervisors should focus on non-prudential requirements which are more appropriate to the concerns of credit only institutions and which are less burdensome to supervise. The fact that these institutions typically use wholesale funds from other commercial sources does not warrant the need for burdensome prudential regulation on these MFIs.

Sources of funding: MFIs, like commercial banks, typically access funds through three main sources. Funding may be obtained through customer deposits; equity capital and retained earnings; or through wholesale capital markets. In addition, MFIs may also obtain funds through the international donor community and through public donations. As already mentioned, those MFIs accessing funding through customer deposits should be subject to prudential regulation. However, there has been great controversy over how regulators define 'deposits.' In SADC, as elsewhere, it is common practice for MFIs to request a small percentage of the loan amount as a form of collateral. These collateralised/forced 'savings' are used to incentivise repayment by borrowers and are refunded after the loan is fully repaid. Many regulators consider these savings as a form of deposit and require that either MFIs discontinue the practice or apply for a deposit-taking license, if one exists.

Where obligatory cash collateral / forced "savings" are required by MFIs the need for prudential regulations are more complicated, and need to be weighed against the costs of regulation. The key question is whether the deposits are intermediated, or whether they are merely placed in a regulated bank. Prudential regulation should only be required where these funds are intermediated. Where they are not, other non-prudential regulations can better manage the risk. Such risk may relate to misappropriation of these funds. In such circumstances, consideration should be given to regulating the security of the funds, in addition to the use of the funds. Common practice would be to ensure that these funds are kept at other regulated commercial banks, either ensuring that the customer makes the deposit directly or that by monitoring in some way that the MFI deposits these funds itself.

Special licenses for deposit-taking MFIs: The experience on creating special licenses for deposit-taking MFIs have had mixed outcomes. It has often resulted in a proliferation of small rural banks, many of which are unsound, require significant supervisory resources, and subsequently disappear. On the other hand, those that survive can continue to provide rural services, which were previously not offered, on a sustainable basis.

CGAP suggests that the challenges may outweigh the benefits in situations where there are not yet strong MFIs that are ready to transform. That is, institutions must at least have shown an ability to lend profitably before they can be considered candidates for deposit taking. In conclusion, CGAP recommends that careful consideration be given to unintended consequences prior to creating a new regulatory option especially for MFIs; and highlight the importance of the local conditions and priorities in terms of whether the option will be worthwhile or not.

CGAP also suggests that where feasible, these allowances for deposit-taking MFIs be integrated into the existing financial system so as to promote increased harmonization.

Minimum capital requirements: Another challenge is that by setting the minimum capital requirement lower for deposit-taking MFIs than for banks, regulators are effectively catering for smaller institutions with smaller loan books. This is due to the important relationship between capital and the size of the loan book that can be supported by that capital. The question then becomes whether these smaller institutions with limited capital can support the necessary investment in the management information systems, and other infrastructure, required to safely accept deposits. In contrast, if the capital requirements are increased, the value of loans that the institution must make in order to make a profit also increases, which could limit the applicability of the deposit taking microfinance license.

If regulators do decide to introduce special deposit-taking licenses for MFIs, the level at which the minimum capital requirements are set will ultimately be critical. Caution must be taken not to set the limit too low so as to i) overburden the prudential regulator, and ii) allow ill-prepared financial institutions to potentially place the savings of vulnerable low-income savers at risk. On the other hand, setting the minimum capital limit too high may result in the deposit-taking license not being taken up, with little or no impact on financial access. Best practice is for regulators to institute conservative capital requirements at first, with an option of increasing these later. This practice will avoid regulators being overburdened by an influx of new institutions than it cannot monitor effectively.

4.1.2. Non-prudential Regulatory Issues

While regulatory discussions often focus on the prudential regulations, CGAP makes the point that there are many non-prudential options through which to achieve various regulatory objectives. Table 1 below highlights the key non-prudential regulatory principles relevant for the SADC region.

Table 1: Non-prudential regulatory issues[19]

Regulatory issue	Regulatory principle/issue	Recommendation
Appropriate regulator	• In general CGAP makes the point that the appropriate regulator for non-prudential regulations may not necessarily be the same regulator as is appropriate for prudential regulations.	• Give consideration to separating the prudential and non-prudential regulators.
Interest rate limits	• Administrative costs of lenders do not vary in proportion to loan amounts. As such, "MFIs cannot continue to provide tiny loans unless their loan charges are considerably higher in percentage terms than normal banks"[20]. • As it is politically difficult to set interest rate limits high enough they should be avoided.	• Avoid interest rate limits.
Registering / licensing lenders	• This process should be kept as simple as possible, for instance including a public registry and permit-issuing process. • The purpose of this should be clear – e.g. for monitoring and benchmarking purposes, or to enable government to respond to abuses.	• Keep permission process simple and focused on achieving regulatory objectives.

[19] (Christen, Lauer, Lyman, & Rosenburg, 2011); (Christen; Lyman & Rosenberg, 2003)
[20] (Christen; Lyman & Rosenberg, 2003, p.10)

Regulatory issue	Regulatory principle/issue	Recommendation
Consumer protection	• There is room for regulations governing **reckless lending** (leading to over-indebtedness) and **abusive collection** processes. However these regulations do not need to be administered by the prudential regulator. • **Disclosure requirements,** including in terms of effective interest rates, are generally encouraged by CGAP. This truth in lending is primarily to encourage competition and efficiency by increasing the ease of comparison for borrowers. CGAP does however note the potential public and political backlashes that could make this disclosure difficult.	• Encouraged but not necessarily by a prudential regulator.
Credit bureaus	• By decreasing information asymmetries and increasing the incentive to repay, credit bureaus can increase access to finance. • However there must be a national ID system in place, or alternative way of identifying people. Credit bureaus can also raise privacy issues.	• Introduce where possible/practical.
Limitations on ownership, management and capital structure	• Foreign resources, including donor or NGO, are often the only available resources for MFIs, particularly those that are yet to prove their sustainability. Foreign restrictions can therefore be problematic.	• Avoid foreign ownership limitations.
Legal transformations	• Regulations should create a clear path for microfinance transformations (e.g. from NGO to commercial entity); however the importance of this will depend on the number of institutions that are candidates for transformation.	• A clear path should be created where there are likely to be a number of candidates for transformation.

4.1.3. Prudential Regulatory Issues

As mentioned above, prudential regulations are important to manage systemic risk in the financial system, but due to the complexity and associated costs of introducing and administering these regulations, not only the cost on the supervisor, but equally on the institutions being supervised, they should only be applied to deposit-taking institutions. The first question is when to apply prudential regulations to microfinance institutions. The table below outlines each prudential regulatory issue and the principle of appropriate use.

Table 2: Prudential regulatory issues[21]

Regulatory issue	Regulatory principle / issue	Recommendation
Permitted Activities	• Regulations should clearly state the activities that different types of MFIs are allowed to conduct. The permitted activities (taking into account the associated risk of each), should be related to the level of regulation (prudential and other) that the type of institution is subject to.	• Regulation should clearly define the types of permissible activities that an MFI is allowed to engage in. These allowances should be based on the capacity of the institutions and the level of regulation that they are subject to

[21] (Christen, Lauer, Lyman, & Rosenburg, 2011)

Regulatory issue	Regulatory principle / issue	Recommendation
Capital Adequacy	• Bank capital rules work as a buffer to protect an institution's depositors against potential losses; including those related to non-performing loans. • Characteristics of MFI loan portfolios expose them to significant credit risk (often greater than those of banks – relative to risk weighted assets). As such it is prudent to subject deposit-taking MFIs to higher capital adequacy requirements than banks. This is due to several arguments, including the fact that high delinquency rates have the potential to decapitalise an MFI much faster than a commercial bank.	• Generally it is prudent to have higher capital adequacy requirements for prudentially regulated MFIs than for banks.
Unsecured lending limits	• While collateral can always be leveraged in the event of non-payment of a loan, this is not true where no collateral is involved. Therefore limits on unsecured loans are typically put in place to manage the level of credit risk banks and other lenders are exposed to. Limiting a MFI's unsecured portfolio to some percentage of equity would make micro lending very difficult for MFIs (given that unsecured lending is often their core activity). By placing a limit on how much an institution can lend, regulators would be making self sustainability more difficult.	• MFI portfolios should not be subject to unsecured lending limits.
Loan Loss Provisions	• Where loans are unsecured, regulators typically require credit institutions to provision against a loan as soon as it becomes delinquent, as a preventative risk measure against potential non-repayment (as there is no collateral to fall back on). MFIs often only deal in unsecured lending; and given the profile of their clientele, once a loan does fall delinquent, the chances of recovering the loan are often less than in the case of commercial banks. For these reasons it is deemed prudent for MFIs to more aggressively provision against delinquent loans (than banks). • CGAP argues that requiring loan loss provisions for all unsecured loans at the time they are made, even before they become delinquent, is impractical for microcredit; and would result in severe under-representation of an MFI's wealth. However using historical (country specific) MFI delinquency rates to prescribe a reasonable level of provisioning for current loans, may be prudent; and given the often high rates of repayment is unlikely to be overly onerous on MFIs.	• Provisioning for delinquent loans should be more aggressive than collateralised bank loans. • While over provisioning for current loans is not advisable, a reasonable level of provisioning even for current loans may be prudent.
Liquidity Risk	• Commercial banks have a need for liquidity to meet depositor demands, and other commitments. Liquidity requirements are therefore enforced to promote the prudent management of these risks (and to protect customer deposits). • While MFIs face similar risks, the liquidity risk management options they have at their disposal are typically less than the options which banks have (for example including easier access to the interbank lending market and the lender of last resort). • MFIs should therefore be subject to higher liquidity requirements than conventional banks, as a preventative risk measure.	• Deposit-taking MFIs may warrant higher liquidity requirements.
Reporting requirements	• Many MFIs are small and lack sophisticated MIS and means of constant communication. Regulators should pay attention to these differing circumstances when drafting reporting requirements into the regulations. While reporting is critical for effective supervision, requirements such as daily or even weekly reporting may be virtually impossible for MFIs to adhere to. • More importantly, reporting requirements (frequency and volume) should be directly correlated with the associated risks of the institution	• Regulations must pay particular attention to the circumstances of MFIs, but should be based on the level of risk associated with the institution.

There are a number of other regulatory principles that CGAP discusses (prudential and non-prudential), however, the above are the most relevant for the purposes of this study. As such, they will form the bulk of the framework used to assess and compare the microfinance regulations across SADC member states.

5. MICROFINANCE IN SADC

This section of the report provides a regional summary of microfinance, focusing on microfinance lending, regulation, monitoring and support. As previously mentioned, those readers interested in more detail on specific countries should refer to the individual country reports.

5.1.1. Microfinance Lending

The lack of publically available data that SAMCAF experienced in 2003 is unfortunately still a prominent feature of the microfinance sector in SADC. While regional regulators where very accommodating in terms of making themselves available for interviews, and mostly responded to survey questionnaires; the industry level data request received a very poor response rate. Unfortunately, in no instance was the regulator able to provide the requested data, either because it did not exist, or reporting was not reliable enough to formulate a reasonable view of the industry. Data from Namibia, DRC and South Africa was publically available; however, most of the other countries do not make data publically available.

Despite these challenges this section aims to provide a view of the level of microfinance lending activity in SADC, and the main providers of microfinance in the region. In addition to the limited data provided by central banks, this section also draws on secondary data from aggregate sources such as Mix Market, CGAP and the World Council of Credit Unions (WOCCU); data from institutions' websites and annual reports; and data from previous country level and regional research. While admittedly imperfect, the combination of quantitative and qualitative data gathered does provide a useful overview of the degree of lending in SADC.

Table 3, which uses Mix Market data, shows a strong upward trend in microfinance, not only in the volume of loans disbursed, but in the number of clients served. This is true even though there are fewer institutions reporting in 2009 than was the case in 2003 and 2006[22].

[22] While Mix Market data is very useful, it should not be interpreted as representing all microfinance activity, as it only includes data from institutions that voluntarily report. These institutions are typically well established formal institutions.

Table 3: Growth of microfinance in SADC

	2003	2006	2009
Number of institutions reporting	43	46	36
Gross Loan Portfolio (US$)	77,353,461	275,950,476	1,539,771,910
Number of active Borrowers	454,997	972,274	1,444,856[23]
Deposits (US$)	20,332,032	200,032,149	1,837,952,180

Source: (Mix Market, 2011)

The microfinance sector in SADC, serves low-income salaried individuals as well as micro and small enterprises. In addition to NGOs, the last decade has seen an influx of for-profit non-bank financial institutions targeting both microenterprise and salary-backed consumer lending. Commercial banks, which have traditionally been reluctant to lend to this end of the market, have also started to down-scale their operations in search of new customers.

Table 3 shows that the level of deposits has grown to surpass loans at those institutions reporting to Mix Market. While not necessarily representative of the whole sector, this is indicative of the broader definition of microfinance which is currently used and which extends beyond credit to include savings, insurance, payments and other financial services provided to low income individuals. The increased role that commercial banks now have in some countries in terms of microfinance provision, together with the number of institutions that have only recently been regulated and permitted to engage in deposit taking, also contribute to the increase in savings.

Figure 2 below illustrates the level of outreach of microfinance in Southern Africa, as opposed to SADC and thus differs from Table 3[24]. It draws on data from CGAP surveys as well as Mix Market. The region is far off the pace of outreach experienced in East Africa. Further, it shows that commercial banks reach the overwhelming majority of borrowers in Southern Africa, which is not the case in the other regions.

However there are significant challenges with this data. On the one hand, it excludes customer numbers for African Bank, the largest micro-lending focused commercial bank in SADC. Inclusion of African Bank clients would bring total Southern Africa borrowers close to 3 million, well surpassing West Africa (although potentially also subject to its own critical omissions). On the other hand, this data includes client numbers of Capitec Bank (over 800,000). Excluding Capitec Bank from the scenario would paint an entirely different picture on Southern Africa, reducing total clients to approximately 300,000. Thus, the inclusion of the South African micro-lending focused commercial banks severely alters the Southern Africa numbers, and thereby bring into question the extent and outreach of microfinance across the rest of the region. Figures also exclude other relevant institutions and industries in SADC. For example, Tanzania’s financial cooperative market is estimated to reach more than 900,000 individuals.

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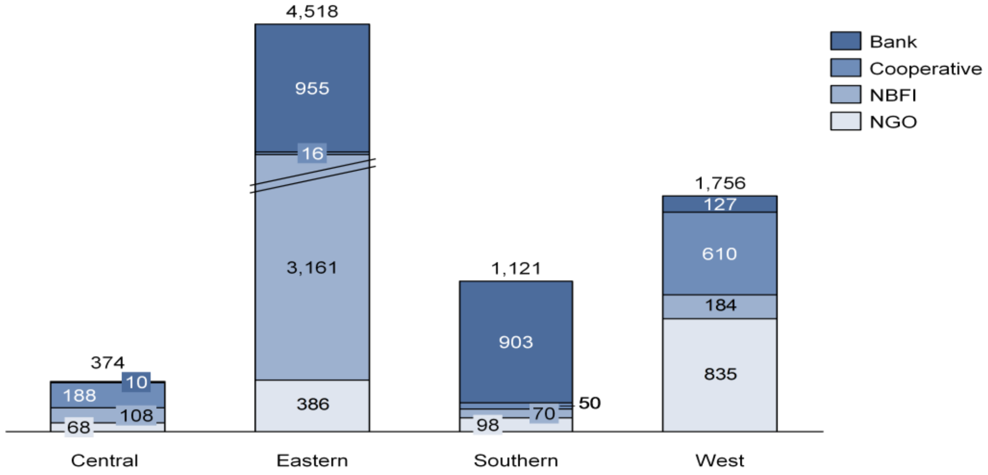
[23] While the SADC figure includes Capitec Bank in South Africa, it excludes customers of African Bank in South Africa. African Bank reportedly has 1.8 million customers, which would more than double estimated customer numbers in the region. This highlights the dominance of South African micro-lending focused commercial banks in driving these figures, and the importance of including large institutions when estimating the level of microfinance activity.

[24] The data reflects Southern Africa and not SADC. It should be noted that DRC forms part of Central Africa while Tanzania forms part of East Africa.

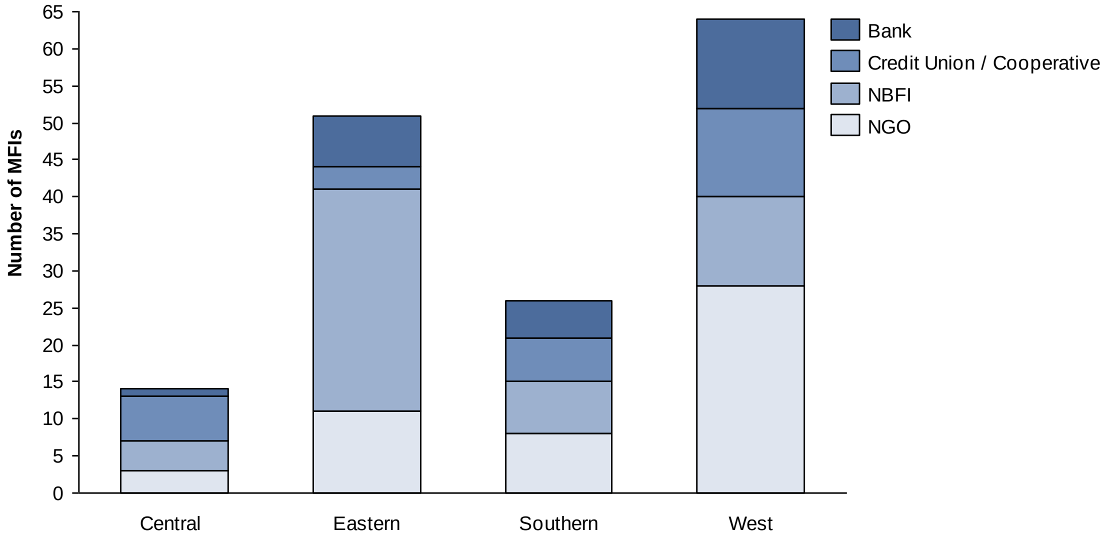
Figure 2: Number of Borrowers in Sub-Saharan Africa, 2009 (thousands) [25]



Source: (CGAP and Microfinance Information Exchange, 2010)

Figure 3 below shows the number of institutions under each category of institution that made up the sample of microfinance providers. Commercial banks are shown to have the lowest representation, but account for the highest outreach. In contrast, most MFIs are NGOs and NBFIs; however, these collectively reach fewer borrowers than the banks.

Figure 3: Number of MFIs by sub-category in Sub-Saharan Africa, 2009



Source: (CGAP and Microfinance Information Exchange, 2010)

What follows below is a more comprehensive discussion of each of these types of institution, namely commercial banks, for profit MFIs, SACCOS and NGOs. The discussion focuses on their main lending activity in the region.

[25] Note: This data is formulated through four separate data sets. CGAP uses its annual microfinance survey, the MIX data set comprising over 180 MFIs, the MIX funding structure database outlining MFI borrowings, and the MIX social performance data collection report, which assesses social performance management of 34 Sub-Saharan African MFIs. While the data is still likely to have some gaps, it represents one of the most comprehensive datasets on the region.

Commercial banks have become very active in some SADC countries (South Africa, Angola, DRC, Mozambique, Tanzania and Malawi in particular), providing microfinance largely as a result of renewed strategies to target traditionally excluded segments. Within Southern Africa, banks account for 81% of microfinance borrowers and 83% of depositors[26]. Most institutions simply provide finance to low-income salary earners through targeted low-income propositions. South Africa is arguably the best example of this, where focused micro credit commercial banks, such as African Bank and Capitec Bank, provide unsecured salary-based lending products to low-income employed individuals. In fact, Capitec Bank recorded the fastest growth in borrowers in 2009 in the SADC region and the second fastest growth in Sub Saharan Africa. The bank provides loans averaging approximately US$392 in size to low-income South Africans[27].

In the case of Angola, Mozambique and DRC, there are microfinance focused commercial banks. These institutions typically began operating as MFIs but as they grew large enough, transformed into commercial banks; mostly incentivised by low minimum capital requirements and/or a desire to be formally regulated as part of the banking system (as this can improve access to both retail and wholesale funding). These microfinance-focused banks in the countries specified have in some cases expanded into retail and SME banking as well. Lack of segmented reporting prevents an isolated view of their microfinance activity; however, these banks have tended to remain focused on microfinance despite expanding into other segments. Their roots as MFIs have resulted in most of them maintaining their group lending methodology. Mozambique and DRC are the best examples where this has occurred.

There are also those commercial banks that have a significant shareholding from government and which carry out microfinance services as part of government's social responsibility agenda.

For profit MFIs have grown considerably over the last decade in SADC. These institutions are largely salary-based micro lenders but also include non-bank financial institutions operating microenterprise lending on a commercial scale. Research has shown that institutions are largely urban based or operate in peri-urban areas. The likes of KixiCredito in Angola and Tujijenge Finance in Tanzania are examples of for-profit microenterprise lenders. These institutions typically operate both group and individual lending methodologies.

In terms of the salary based micro lenders, there is often a temptation to classify this type of finance differently to microenterprise lending, as it is not typically for entrepreneurial purposes. CGAP warns against such biases. Even though their loans don't typically go to micro entrepreneurs for productive purposes, their contribution to development is often indirect. Loans are often used to fuel consumption but could also have a developmental use in terms of enabling an individual to pay for school fees or health care, or even to smooth consumption while his/her microenterprise takes off. These, often small, micro lenders dominate the scene and are the most significant providers of microfinance in many of the smaller SADC countries such as Lesotho, Botswana and Swaziland. They have also proliferated at the expense of pro-poor institutions in countries such as Zimbabwe.

Many former NGO organizations have now converted to NBFIs. Institutions such as, FINCA in Zambia and DRC, and CETZAM in Zambia, have had to change their NGO status and transform into microfinance companies to be able to accept deposits (as per their respective microfinance regulation).

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[26] Derived from CGAP and MIX Market (CGAP and Microfinance Information Exchange, 2010).
[27] See separate country report on South Africa for more information (Capitec Bank, 2011).

SACCOS or credit unions are member based organisations and have been found to be arguably the most common type of microfinance institution in SADC, and account for the bulk of microfinance lending in countries such as DRC, Swaziland and Mauritius. In some countries regulation allows for formation of cooperative networks, which can result in institutions that are of real importance to providing microfinance services to clients. One such example is in DRC, where cooperative network Meheco (comprising about 20 individual cooperatives) commands a loan portfolio in excess of US$30 million.

Lack of sufficient data on these institutions is a major obstacle in terms of understanding the market, and in particular in terms of determining the extent to which there are large financial cooperatives in need of prudential supervision. Cooperatives in only half of SADC countries report activity to WOCCU[28]. However, those that do report are indicative of how significant their role to microfinance provision (both credit and savings) can be. It highlights the importance of prudentially regulating the larger SACCOS, and suggests that there are more large SACCOS than are currently regulated.

Table 4 and Figure 4 illustrate SACCO performance in selected SADC countries. Their importance to microfinance provision, not only emanates from the number of members they can attract and the level of credit that they provide, but also from their ability to mobilise savings. These member based institutions are especially important in smaller countries such as Mauritius, Swaziland and Seychelles. The fact that they typically service poor/low income individuals magnifies their importance in terms of extending financial access. Tanzania in particular, has tremendous numbers of financial cooperatives, reaching almost a million people. It is thus by far the most significant financial cooperative market in SADC.

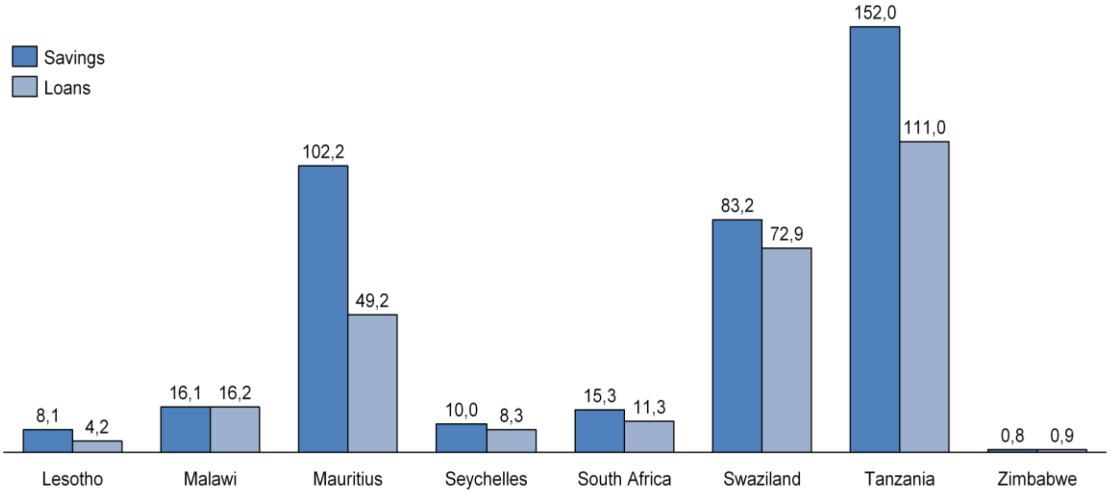
Table 4: Credit unions in selected SADC countries, 2010

	Lesotho	Malawi	Mauritius	Seychelles	South Africa (2009)	Swaziland	Tanzania	Zimbabwe
Number of credit unions	51	3	95	1	31	60[29]	5,344	53
Members	51,685	119,243	100,000	11,525	20,012	37,804	911,873	90,000

Source: (World Council of Credit Unions, 2010)

[28] Even in the countries that have some cooperatives that report to WOCCU, there are generally others that do not.
[29] Of these 60 registered SACCOS, 48 are active.

Figure 4: Volume of savings and loans by credit unions in selected SADC countries, 2010 (US$ millions)



Source: (World Council of Credit Unions, 2010)
Note: South Africa's data is as of the end of 2009

NGOs, both national and international, are still present in SADC and are perhaps the best providers of rural finance due to their social rather than profit objective. However, most NGOs have not reached any significant scale in SADC and play a less important role to the provision of microfinance than say, West Africa. Perhaps the largest presence of NGOs in SADC, and with perhaps the largest outreach can be found in Tanzania. NGOs there have preferred to remain as NGOs rather than transform to microfinance companies (non-bank financial institutions), largely because they perceive the regulations in Tanzania to have very restrictive ownership requirements.

Perhaps comparable in size to Tanzania's MFI NGOs, are those found in South Africa. The likes of Small Enterprise Foundation (SEF) and Marang Financial Services are amongst the largest NGO MFIs in SADC but are deemed insignificant relative to South Africa's very large financial sector. Still, NGOs in South Africa and in the rest of SADC play an important role in not only providing microfinance but also in uplifting society and empowering individuals (especially women), through continued focus on microenterprise lending in rural areas.

Table 5 below outlines some of SADCs largest and most active NGOs.

Table 5: SADC MFI NGOs (2009)

NGO	Country	Active Borrowers	Loan Portfolio (US$)	Average Loan Size (US$)	Active Depositors	Deposits (US$)
PRIDE	Tanzania	72,977	26.9 million	369	92,390	13.7 million
SEF	South Africa	64,030	13 million	204	-	-
BRAC	Tanzania	89,818	10.1 million	112	89,818	2.7 million
FINCA	Tanzania	41,253	7.2 million	175	41,253	1 million
Marang	South Africa	24,522	4.3 million	174	-	-
WDB	South Africa	32,000	3.5 million	108	-	-
FINCA	Malawi	16,689	2.7 million	164	16,689	196,138
CUMO	Malawi	36,261	1.5 million	41	36,261	199,550

Source: (Mix Market, 2011)

Table 6 below outlines a summary of the microfinance landscape in each SADC country. It provides an indication of the importance of each type of institution to the provision of microfinance services in each country; as well as a qualitative summary on the high level findings on each country.

Table 6: Summary of landscape of microfinance provision in SADC

	Commercial Banks	NBFIs (For Profit)	NGOs	SACCOS	Comments
Angola				?	Most microfinance occurs through commercial banks. Roughly 5 banks have significant investments in microfinance. Angola has only one NBFI operating in the country (KixiCredito). The remaining landscape is made up of microenterprise lending by a handful of NGOs.
Botswana				?	Botswana has more than 500 salary-based micro lenders and only one NGO operating in the country. Commercial banks are largely inactive in this space, only providing low-value personal loans
DRC					There are 132 licensed SACCOS and 19 registered MFIs. In addition, a few 'microfinance type' banks have the largest combined microfinance portfolio of any institutional type. All MFIs (including SACCOS) had 558,438 accounts, with almost US$50 million in outstanding loans. The three 'microfinance type banks' had a loan portfolio of about US$65 million.
Lesotho					Limited microfinance activity exists, except for small for-profit companies (66 credit-only institutions) registered with the central bank. There is also significant presence and activity by SACCOS.
Malawi					Two commercial banks have active microfinance portfolios, of which one is state owned. There is still healthy presence of NGOs (as microenterprise lenders) but they are credit-only. Other microenterprise lenders include state owned parastatal Malawi Rural Finance Company (MRFC) and a government funded program called Malawi Rural Development Fund (MARDEF). SACCOS are amongst the most active in Malawi, with 72 SACCOS serving 119,243 members.
Mauritius					SACCOS are the main providers of microfinance in SADC, with 149 SACCOS serving some 70,000 members. State owned, Development Bank of Mauritius lends to MSMEs and provides the only other microfinance to speak of.

	Commercial Banks	NBFIs (For Profit)	NGOs	SACCOS	Comments
Mozambique	◕	◑	◔	○	One of the most active markets. The microfinance landscape is increasingly in the hands of microfinance-focused commercial banks and large national NGOs and cooperatives. Four very successful 'microfinance type' commercial banks have the highest level of activity. NGOs are also active, however, outreach is small compared to the rest of the market. Quite a few MFIs operate as NBFIs. About 155 credit-only institutions are licensed along with eight micro banks (NBFIs accepting deposits). The rest of the market is made up of SACCOS. Although seven SACCOS and ten Savings and Loans Organisations are registered with Bank of Mozambique, the size of remaining informal market is uncertain.
Namibia	◔	◕	◔	○	There is one very recent deposit-taking microfinance bank (with a very small loan portfolio) and very little NGO activity, which implies very little microenterprise lending. Most activity comes via salary-based micro lending. There are 400 registered micro lenders of which only eight are term lenders (lend for terms greater than one month). Banks have very little activity but do set up separate micro lending subsidiaries to take advantage of Usury Act exemptions.
Seychelles	○	○	○	◑	One large credit union serving 11,525 members with US$8.4 million in loans. Two other DFIs, the Development Bank and Housing Finance Company provide credit typically to SMEs and middle to low income individuals respectively.
South Africa	◕	◑	◔	◔	Two commercial banks are focussed on the low-income segments and by broad definition, could be regarded as the two largest MFIs in SADC. Larger commercial banks have released low-income value propositions. There is a fair deal of salary backed micro lending by smaller credit companies. Microenterprise lending done by NGOs represents a small portion of total micro credit market. There are also two licensed cooperative banks which are relatively small compared to the rest of the market.
Swaziland	○	◑	○	◕	Low levels of microfinance activity with SACCOS currently the main providers of microfinance. Available data indicates that 60 SACCOS serve approximately 37,804 members. Four salary-based lenders are registered with the central bank as credit financial institutions. In addition, two privately owned and one state owned institution (unregistered) provide microenterprise lending.
Tanzania	◕	◕	◕	◕	Perhaps the most active microfinance market in SADC. There is just one licensed deposit-taking institution whose level of activity is uncertain. Quite significant activity is present at the commercial bank level through the likes of NMB, CRDB, NBC, AKIBA and TPB. There are many NGOs (roughly 160), both local and international, providing microenterprise lending. In addition, there are as many for-profit MFIs engaged in both salary-backed lending and microenterprise lending. SACCOS as well are reportedly many (estimated at 5,344) and accounting for well over US$100 million in savings and loans each.
Zambia	○	◕	◔	?	Zambia has experienced a proliferation of payroll-based micro lenders. There are also five regulated deposit-taking institutions, while the rest of the markets is made up of smaller credit-only micro-lenders and NGOs
Zimbabwe	◑	◕	◔	◔	Zimbabwe has seen a shift in its microfinance environment to include much more small for-profit micro-lenders but still with a few larger micro lenders. NGOs are still present but have significantly reduced outreach, while Commercial Bank of Zimbabwe also provides microfinance services

.

○ Some presence but insignificant microfinance activity ● Important contributor of microfinance services ? Presence in the market but level of activity is uncertain

Source: (Genesis Analytics, 2011)

5.1.2. State of Regulation

Since 2003, governments have been very active in not only drafting microfinance policy, but in developing regulations governing microfinance activity, and in some instances cooperative activity. The drive has come as recognition of the important role that microfinance can play in promoting financial access and reducing poverty. Interestingly pressure from institutions themselves has also driven this process; with some institutions viewing regulation as a vital signal of stability, thus improving access to much needed funding.

In almost all cases in SADC, governments have either already enacted microfinance legislation and published regulations or are in the process of developing suitable frameworks, such as in Lesotho and Namibia. Only Mauritius and Seychelles have no intention of developing a regulatory framework specific to microfinance; while South Africa non-prudentially regulates all lending institutions, including MFIs, under the National Credit Act (NCA). In Botswana, microfinance legislation has been enacted, and dictates that MFIs will be regulated by the Non-bank Financial Institutions Regulatory Authority (NBFIRA); however, regulations to the Act are still pending. Similarly, Malawi has promulgated its microfinance act but has yet to publish the associated regulations. Finally, in Swaziland, plans to develop a separate regulator for non-bank financial institutions (under which MFIs will fall) are well under way.

In all instances, except for the case of South Africa, Botswana and Namibia (to a certain degree) MFIs are regulated by the central bank. In Namibia, credit-only institutions are regulated by Namibia Financial Institutions Supervisory Authority (NAMFISA) but plans are to regulate all deposit-taking institutions under Bank of Namibia (BON)[30].

General Regulatory and Supervisory Principles

The approach to regulation is different across the region and treatment of general regulatory issues reflects these differences. The framework reflected in Table 7 highlights some of the different approaches to microfinance regulation in SADC, at a regulatory principle level.

[30] In South Africa all deposit-taking financial institutions are also regulated by the central bank, however the key difference is that South Africa does not currently make allowances for deposit-taking MFIs.

Table 7: Comparison of regulatory treatment across SADC countries

	Angola	Botswana	DRC	Lesotho	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe***	SADC Compliance
Allow MFI deposit-taking license	☒	☑*	☑	☑*	☑	☒	☑	☑	☒	☒	☒	☑	☑	☑	◕
Prudential regulation of large SACCOS	☑**	☒	☑**	☒	☑**	☒	☑	☒	☑	☑	☒	☑	☒	☒	◑
Forced savings are not considered deposits	☒	☒	☑	?	☑	☒	☑	☒	☒	☒	☒	☒	☒	?	◔
Prudential regulation applies to deposit-takers only	☒	☑	☒	☑	☒	☑	☑	☑	☑	☑	☑	☑	☒	☑	◕

☑ Adherence / likely adherence to proposed regulatory issue ☒ Divergence / likely divergence from proposed regulatory issue ☐ Adherence is likely but has not yet culminated due to lack of current legislation

* Microfinance act/regulation is imminent which will cater for a deposit-taking license
** Prudential Regulation exists for all SACCOS and not just large SACCOS
*** Zimbabwe has only provisioned for microfinance banks but credit-only legislation is in process of being drafted

● Full compliance ○ No compliance

Source: (Genesis Analytics, 2011)

MFI deposit taking license: Most SADC countries either have, or are in the process of introducing, regulations that allow for deposit taking MFIs. Zambia, DRC, and Mozambique have defined different tiers of microfinance institutions differentiating their activity on their ability to accept deposits. In Tanzania, the regulators have introduced a license for deposit-taking institutions only, with no regulation for credit-only MFIs. The general approach in countries where microfinance legislation and regulation is imminent, such as Malawi, Zimbabwe and Lesotho, are to also adopt a tiered approach to microfinance, with provisions for deposit-taking institutions. The relevance of introducing deposit-taking licenses is that they allow for the progression of suitably qualified institutions from credit only MFIs to deposit taking. This is particularly important in a region where funding is so often cited as a major constraint.

Prudential Regulation for deposit-taking institutions only: Prudential regulation is typically applied to ensure the stability of the financial system, and to protect customer deposits. Given the mostly small relative size of the microfinance sectors in SADC, the main purpose of prudential regulation is to protect customer deposits. For that reason, as well as the supervision costs for regulators, and the potentially negative impact on access to finance, it is advisable to restrict prudential requirements to deposit-taking MFIs. DRC, Angola, Malawi and Zambia have all instituted prudential regulation for lending-only institutions. These countries should reassess their reasoning for these prudential requirements and consider the costs associated with this practice, not only to the regulator but to the institution being regulated as well. This is especially true where all credit-only institutions are subject to prudential requirements, regardless of size. The administrative burden and lack of skills to adequately adhere to these requirements are potentially damaging to growth.

Prudential regulation of large SACCOS: While members of very small SACCOS can be involved in the management of the cooperative; the ability of members of large SACCOS to monitor the dealings of their SACCOS is not necessarily much better than the ability of bank customers to monitor banks. As such, CGAP proposes that large SACCOS, where they exist, be prudentially regulated. As it currently stands, half of the countries reviewed prudentially regulate SACCOS, with five of the fourteen countries restricting prudential regulation to ‘large’ SACCOS (where ‘large’ is defined differently in different countries).

In Tanzania, large financial cooperatives are required to be licensed and prudentially regulated by the central bank once they acquire deposits of at least US$500,000. However, to date no SACCOS have been registered by the Bank of Tanzania (BOT), despite reports that a number of SACCOS are of the requisite size. Mozambique’s approach to regulating SACCOS is also based on the size of the organization, albeit in terms of the number of members. Only those SACCOS with membership greater than 200 individuals (classified as ‘credit cooperatives’) are subject to prudential regulation; while those with less than 200 members are subject to monitoring only[31] and are known as ‘savings and loan organisations’. In South Africa as well, regulatory thresholds on cooperatives are implemented based on membership numbers. The Cooperatives Banks Act of 2007 outlines that cooperative institutions with at least 200 active members and US$160,000 in deposits are required to register with National Treasury and will be subject to prudential regulations.

Forced savings: The issue of forced savings is treated very differently across countries. While these are treated as deposits in some countries such as Angola, Tanzania and Zambia and require deposit-taking licenses in order to continue the activity, in other countries such as DRC and Mozambique, the practice is allowed but institutions are regulated against on lending these funds. CGAP principles propose allowing forced savings subject to certain conditions such as that the funds must be stored in a licensed deposit-taking institution and that no on-lending of the funds be allowed. In some instances regulations remained silent on the issue, which can create confusion and an unlevel playing field. As per CGAP’s principles, legislation should be clear on what is and is not permitted.

Non-prudential regulation

There are also significant differences between countries in terms of non-prudential regulations. Figure 8 below compares non-prudential regulations across the region, focusing on some of the key principles discussed in Section 4 above.

[31] Monitoring only in Mozambique refers to ‘light’ supervision, which requires institutions to report bi-annually. They must submit simple data (as prescribed by BOM), which includes such line items as: the portfolio value; client numbers; interest rates; PAR etc.

Table 8: Comparison of key non-prudential microfinance regulations across SADC

Best Practice	Angola	Botswana*	DRC	Lesotho	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe	SADC compliance
No interest rate limits	✓	1/2	✓	✗	✓	✓	✓	✗	✓	✗	✗	✓	✓	✗	◑
Comprehensive consumer protection	✓	✗	✗	✗	✗	✗	✗	1/2	✓	✓	✗	✗	1/2	✗	◔
No restrictive resourcing requirements	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✓	◕
Availability of a credit bureau (or public credit registry)	1/2	1/2	✗	✗	✗	1/2	✗	✓	✗	✓	1/2	✗	✓	✗	◔
No constraining limitations on ownership	✓	✓	✓	✗	✗	✓	✓	✓	✓	✓	✓	✗	✗	✗	◕

✓ Regulation is present ✗ Regulation is not present 1/2 Regulation is partially present (in the case of credit bureaus it indicates only recording of negative information)

* In the case of Botswana, guidelines on the maximum cost of credit rather than regulations on interest rate limits will be issued ● Full compliance ○ No compliance

Source: (Genesis Analytics, 2011)

Interest rate limits: In six markets, interest rate limits still exist. These are primarily countries where legacy and, in some instances, outdated regulation has resulted in their continuation to present day. For example, in South Africa the National Credit Act of 2005 included interest rate limits, in line with its predecessor the Usury Act. The same is evident in Namibia, which has a current Usury Act, and is likely to continue with interest rate limits even in the newly proposed Financial Institutions and Markets Bill (FIM Bill); especially in light of the FIM Bill being benchmarked on South Africa's NCA.

In Swaziland and Lesotho, outdated Acts governing all money lending agreements are still in force and prescribed limits under these Acts have resulted in prosecution of credit-providers. Zimbabwe's Money Lenders and Rates of Interest Act of 1930 as amended in 2002, is often ignored by practitioners especially in light of the economic meltdown that the country has only recently begun to recover from.

As previously mentioned, interest rate limits are potentially damaging to MFIs in that they can prevent institutions achieving sustainability as a result of an inability to cover operating costs. Where microfinance acts are yet to be drafted or tabled, policy makers need to be confident that the limits are set high enough to allow MFIs enough breathing space to price appropriately or to remove the limits altogether. In the case of South Africa, effective interest rate allowances (which allow for service charges on top of the interest rate caps) are reportedly not constraining on the business of micro lenders and other MFIs. The same is not true for all markets with interest rate caps.

A few countries, such as DRC and Malawi expressed an interest over regulating the fees that MFIs charge and will be considering instituting limits on these (without placing limits on the interest rates). It is not clear what the purpose of these regulations would be. Presumably the rationale is to prevent lenders from competing on interest rates (which are typically viewed by customers as the primary pricing mechanism) while gouging on fees. It is however recommended that consideration rather be given to ensuring disclosure of effective interest rates (that is, including all fees) as this is arguably a more effective means of promoting competition (discussed below). Countries such as South Africa, Zambia and Namibia already have disclosure requirements as part of regulations pertaining to money lenders.

Consumer protection: With the exception of Angola, South Africa, and Seychelles, consumer protection is currently severely lacking in most of SADC. Most regulators interviewed did, however, express this as a concern and noted that consumer protection remains high on their agendas. In particular, the focus is on introducing disclosure and transparency requirements (in terms of effective interest rates), promoting responsible lending practices, and preventing abusive collection practices.

Responsible lending in particular is seen as playing an important role in not only avoiding over indebtedness amongst consumers but also in improving re-payment rates and lowering risk. As discussed above, disclosure requirements can be an effective way of promoting competition between service providers, and a better understanding of costs for borrowers. In particular disclosure requirements are a useful alternative to interest rate and fee caps.

Consumer protection regulations need not necessarily be the responsibility of the prudential regulator, and can be supervised by focused market conduct regulators (as is the case in South Africa). If coupled with suitable levels of consumer education, many aspects of consumer protection can also be supervised in a reactive manner, allowing borrowers and compliant lenders to report abuse.

Credit Bureaus: These are important mechanisms for institutions to assess the risk of borrowers more cheaply and more accurately, thus decreasing the information asymmetry between the borrower and lender. It is also an important tool for clients to build up a 'credit reputation,' which will allow them easier access to credit at any institution, and thus promotes a culture of repayment.

Establishing credit bureaus should be high on the agenda for those countries yet to introduce one, and beyond this, mandatory reporting by MFIs should be considered. Currently, Zambia and South Africa makes reporting to credit bureau mandatory for all MFIs and Zimbabwe has expressed its intentions to do so once its bureau has been established. Crucially, reporting should encompass both positive (good payment history) and negative (poor payment history) client information. The findings in this regard differ across SADC. Zambia, Angola, Mozambique[32] and South Africa require both positive and negative reporting, while the likes of Swaziland, Botswana and Zimbabwe focus only on negative information. While credit bureaus are planned for the likes of DRC and Malawi, there are clearly notable challenges to introducing credit bureaus, particularly in countries that do not yet have a National identification system (such as Malawi).

Restrictive Resourcing Requirements: Whilst only two countries have instituted resourcing requirements, only in Tanzania were they found to be notably restrictive, especially amongst smaller institutions. Regulations stipulate that deposit-taking MFIs must have CPA[33] certified Finance and Audit Managers and that all other managers must have five years prior experience. Apart from these staffing requirements adding on an extra element of cost to institutions, it also presents a challenge in terms of attracting these relevant skills. Individuals with these skills are often attracted to more lucrative jobs at commercial banks and other non-bank financial institutions. Securing their services can put burden on MFIs. Nonetheless, deposit taking institutions do need to have sufficient management capacity to ensure the safety

[32] Mozambique only has a state operated credit bureau.
[33] Certified Public Accountant.

of customer deposits. Consideration should therefore be given to alternatives to such specific requirements, for instance relating to more flexible fit and proper tests. Constraining regulations for deposit-taking MFIs can lead to an undesirable situation as occurred in Tanzania, where only one institution has been licensed by BOT, five years after the legislation was introduced.

Restrictive Ownership Requirements[34]: While foreign ownership restrictions are by and large not an issue in most SADC countries, other ownership restrictions have caused problems in a few countries. The most notable example is Tanzania where NGOs in particular have raised concerns. According to the Banking and Financial Institutions Act (2006) of Tanzania, a body corporate may own a maximum of 66% of the share capital of a microfinance company; and the ownership amount is further subject to BOT determining whether the body corporate has sufficient financial resources and sufficient experience in microfinance activities. This maximum of 66% ownership is a constraint for international NGOs[35]. Large institutions such as FINCA and PRIDE are reluctant to relinquish 34% ownership. BOT revealed that these institutions suggested that the regulation be reversed and allow for 100% ownership instead; however, no decision has yet been taken.

Similar ownership restrictions are present in Malawi, where ownership in a deposit-taking MFI is limited to 49%, unless approval is gained from the reserve bank to own more; while in Zambia the microfinance regulations limit the voting control of a deposit-taking MFI to 25%, unless Bank of Zambia (BOZ) approval is obtained to own more.

In Lesotho, the central bank drafted and promulgated regulations (under the FIA of 1999) in 2010 for credit only institutions. Under this regulation, MFIs are no longer subject to interest rate limits, however, these new regulations were designed and gazetted as an avenue for institutions which register as public companies only (where public companies are defined as having a minimum of seven shareholders); and therefore do not assist smaller private companies.

The regulations for microfinance banks in Zimbabwe do not restrict foreign ownership. However, indigenisation laws have been introduced; with the details being left to sector-specific committees to finalise. The financial sector has not finalised the requirements. Further, the messages from government are very mixed, which creates a level of uncertainty that is unsettling for investors.

Prudential Regulation

This section will focus on outlining the status of prudential requirements within SADC. In particular, the focus is on minimum capital requirements, permitted activities, capital adequacy requirements, unsecured lending limits, and provisioning requirements.

Minimum capital requirements: As per Figure 7 above most countries in SADC have introduced, or are in the process of introducing, regulations that cater for deposit taking MFIs. While such allowances are in line with the proposed principles, there are two points worth noting. Firstly, in many countries the minimum capital requirement is very low in comparison to that required for commercial banks. As an example, even in Tanzania where the minimum capital requirement is relatively high at US$500,000; the requirement for national MFIs is almost 19 times less than for commercial banks. It is therefore important that as institutions become licensed as deposit taking institutions, the relative central banks will need to monitor

[34] Ownership requirements refer to both foreign ownership and any limitations deemed potentially restrictive.
[35] Which are included in the definition of Body Corporates.

these institutions closely to ensure that they are able to appropriately manage the risks associated with accepting deposits.

In the case of Zambia, minimum capital for Tier I (deposit-taking) institutions appears low. Care must be taken to ensure that these are not set too low to result in more institutions than capacity at Bank of Zambia (BOZ) can handle. In addition, institutions must be able to support the necessary investment in the systems required to safely accept deposits. Zambia currently has five licensed deposit-taking institutions, amongst the highest number anywhere in SADC.

Secondly, a number of countries have introduced minimum capital requirements for credit-only institutions which is not aligned with the proposed regulatory principals. As shown in Table 9 below (which presents these requirements in countries where specific microfinance legislation has already been introduced and regulations have been published), Angola has one of the higher minimum capital requirements even though the regulations only cater for credit-only MFIs. This is potentially constraining for financial inclusion, as it could act as a barrier to entry for new entrants, especially where these are smaller start up institutions.

Table 9: Minimum capital requirements for MFIs, SACCOS and banks

	Angola	**DRC**	**Mozambique**	**Tanzania[36]**	**Zambia**	**Zimbabwe[37]**
Commercial Bank	US$6 million	US$10 million	US$3 million	US$9.4 million	US$2.5 million	US$12.5 million
MFIs	US$450,000 (credit only)	Level 1[38] – US$15,000 Level 2 – US$50,000 Level 3 – US$100,000	Microbank[39] – US$44,000 – US$81,000 Microcredit Operators – US$2,700	1 branch – US$125,000 Nationwide - US$500,000	Tier [40]I – US$52,170 Tier II – US$5,200	US$1million
SACCO	US$54,000	No minimum capital	US$7,200	US$500,000 (who have reached a threshold of US$500,000 in deposits)	-	-

Source: (Respective country central banks, 2011)

Box 1 below outlines some of the other prudential requirements in relevant SADC countries[41]. In general these requirements tend to be in line with the proposed regulatory principles. While there are notable differences in the provisioning requirements, as recommended, the requirements tend to be more aggressive than for commercial banks. These are discussed further below.

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[36] Tanzania issues MFI licenses and differentiates on minimum capital based on the number of branches that an institution wishes to operate.
[37] Zimbabwe currently has only provisioned for a microfinance bank, able to accept customer deposits.
[38] Level 1 refers to a very small credit-only MFI, while level 2 refers to a larger credit-only MFI, and Level 3 refers to a deposit taking MFI.
[39] Microbanks are permitted to mobilise deposits and issue credit, whereas microcredit operators are only credit-only institutions.
[40] Tier I institutions are permitted to accept deposits, whereas Tier II institutions are large credit only MFIs.
[41] Even though Namibia has recently licensed FIDES bank as a deposit-taking MFI, no framework is yet in place and as a result, no regulation. Therefore, FIDES operates as a microfinance bank but is prudentially regulated as per other commercial banks.

Box 1: Prudential regulations across SADC

Prudential Regulations of Angola

- The reserve requirements mandate provisioning of 1% as soon as a loan is 8 days overdue; and 100% provisioning must occur at 90 days overdue.
- Single lender exposures must not exceed 15% of the institution's equity.

Prudential Regulations of the DRC

- The loan book is limited to a maximum of 80% of deposits.
- Capital must be kept, a minimum of 15% of risk weighted assets.
- Portfolio at risk (PAR) must be kept below 5%.
- Maximum single exposure cannot exceed 10% of equity.
- Operational self sufficiency must exceed 119.4%.

Prudential Regulations of Mozambique

- Capital adequacy ratios – institutions are subject to a minimum total capital of 8% of risk weighted assets.
- Asset and liability coverage ratio – all liabilities maturing in 30 days must be fully covered by liquid assets (e.g.; cash, demand deposits gold and other precious metals, and other assets fully realizable in a period less than 180 days, except fixed assets and the like)
- Concentration risk – lending to an individual or group of customers cannot exceed 25% of regulatory capital.
- Provisioning of 2% begins as soon as a loan is disbursed and graduates according to the following scale: up to 90 days past due (15%); 91 -180 days past due (25%); 181 -270 days past due (50%); 271 – 360 days past due (75%); 361-540 days past due (100%); > 540 days past due (100%).

Prudential Regulations of Tanzania

- Capital Adequacy – 15% of risk weighted assets
- Liquidity – Liquid assets to demand liabilities must be kept to a minimum of 20%.
- Unsecured lending limit – 5% of core capital.
- Provisioning Requirements - start provisioning as soon as a loan is disbursed and must provision for 100% as soon as a loan is 45 days past due.

Prudential Regulations of Zambia

- Capital Adequacy Ratios - Tier I and Tier II MFIs must maintain capital adequacy of 15% of risk weighted assets.
- Liquidity - The ratio of liquid assets to deposits and short term liabilities must equal at least 15%.
- Provisioning - BOZ does not require MFIs to start provisioning as soon as a loan is disbursed, but does require a 10% provisioning one day after a loan is overdue. MFIs must only provision for 100% of the loan amount when the loan is 120 days overdue.
- Unsecured Lending – No unsecured lending limits are prescribed.

Prudential Regulations of Zimbabwe

- Microfinance banks must have at least 40% of its business (in terms of loans) in rural or peri-urban areas.
- Capital adequacy rules and liquidity requirements as prescribed by RBZ (yet to be defined).
- Unsecured lending limits as prescribed by RBZ (yet to be defined).

Source: (Respective country central banks, 2011)

Permitted Activities: In line with CGAP recommendations all countries define a list of permitted activities. In most cases, depending on the institutional tiers, MFIs are required to either only engage in credit activities or where a deposit taking license has been prescribed, to engage on both credit and mobilisation of deposits. In some cases, the regulations provision for special circumstances which allow MFIs to engage in other forms of financial activity upon approval by their respective central bank. In the instance of Malawi, SACCOS may provide transactional services such as money transfer and ATM services to members and non-members, “provided that the services do not affect the balance sheet of the SACCO”[42]. Despite generally adhering to this principle, there are examples, as mentioned earlier with respect to accepting forced savings, where certain functions are neither permitted nor prohibited.

Capital Adequacy: International experience suggests that higher capital adequacy requirements are necessary for deposit-taking MFIs than for commercial banks. With the exception of Mozambique, where the capital adequacy requirement is 8% of risk weighted assets (which is the same as for commercial banks), the remaining countries reviewed have a higher capital adequacy requirement for deposit taking MFIs (15% of risk weighted assets) than banks (which typically face capital adequacy requirements of between 10% and 12% of risk weighted assets).

Unsecured lending limits: Of those countries that prescribe prudential requirements, DRC, Tanzania, Angola and Mozambique prescribe unsecured lending limits as a proportion of equity of 10%, 5%, 15% and 25% respectively. These limits should be reviewed as it is likely to limit the amount of lending possible and can make it extremely different for MFIs to operate sustainably.

Provisioning requirements: CGAP principles call for more aggressive provisioning (than banks). This is because the likelihood of repayment once a loan is delinquent is less than with respect to commercial banks where loans are often collateralised. All SADC states employing provisioning requirements on MFIs have adopted more aggressive provisioning as soon as loans fall delinquent.

While CGAP suggests not requiring MFIs to provision for performing loans; such provisions may be prudent provided they are reasonable and in line with typical loss ratios. Of the countries employing provisioning requirements only Mozambique and Tanzania require some provisioning even while the loans are current. In both instances these requirements are reasonable at 2% of the portfolio.

Tanzania adopts the most aggressive provisioning approach. Compared to Zambia, where MFIs are required to fully provision as soon as a loan is 120 days past due, and Angola, where 100% provisioning is required when a loan is 90 days past due; in Tanzania, MFIs and financial cooperatives must provision 100% of the loan value as soon a loan is 45 days past due. Mozambique is the most liberal, with 100% provisioning of the loan amount required at 361 days past due, but this is largely because Banco de Mocambique still administers similar prudential requirements as commercial banks. Table 10 below compares the provisioning requirements for MFIs and financial cooperatives to commercial banks in Tanzania. Practitioners in Tanzania have complained that 45 days is too short (as this time period still falls well within their average loan term); and have also called for provisioning for loans before they become delinquent to be reduced to zero.

[42] (Government of Malawi, 2011)

Table 10: Provisioning requirements in Tanzania (MFIs and Financial Cooperatives vs. Commercial Banks)

Days past due for microfinance loans	Classification	Provisioning for microfinance / financial cooperative loans	Days past due for commercial bank loans	Provisioning for commercial bank loans
0 days	Current	2%	0-30 days	0%
1 – 15 days	Specially mentioned	25%	31 -60 days	5%
16-30 days	Substandard	50%	61-90 days	10%
31-45 days	Doubtful	75%	91-180 days	50%
More than 45 days	Loss	100%	More than 181 days	100%

Source: (Bank of Tanzania, 2005)

5.1.3. Extent of Monitoring

Lack of reliable data still plagues the microfinance industry in SADC. A key contributing factor is that very little monitoring of the unregulated sector takes place. That said, even data on regulated credit-only institutions is sometimes patchy and deemed unreliable. There are a number of other noteworthy points on the current level of monitoring in SADC:

- **Reporting requirements:** Licensed MFIs are mostly required to report statements of their financial position to their respective regulator, either on a monthly, quarterly or annual basis. Requirements are typically more onerous and frequent for deposit-taking MFIs; however the exact requirements differ between countries. For example, in Zambia, regulated MFI reports include monthly and quarterly balance sheets and profit and loss accounts; whereas in Mozambique deposit taking microbanks and financial cooperatives are required to submit monthly reports showing adherence to capital adequacy, regulatory capital, and asset and liability coverage ratios (in addition to financial information).

  Lesotho even requires credit-only money lenders to report on a monthly and quarterly basis; however a lack of ability to enforce has resulted in reporting that is often sporadic and unreliable.

- **Constraints**: The key constraint to effective monitoring of microfinance is in the form of severe capacity issues at several of SADC's central banks. Even where supervision has been delegated away, as in the case of Namibia Financial Institutions Supervisory Authority (NAMFISA) and NBFIRA in Botswana, resource constraints still limit the level of effective monitoring. As a result, monitoring tends to focus on deposit-taking institutions, with very limited evidence of regulators trying to gather and disseminate information on the broader microfinance sector. There are two notable exceptions to this. The first is South Africa which has the most comprehensive publically available database of lending activity in any SADC country. The data reported does not split out microfinance lending; however, does report most credit activity by type of credit (for example mortgage, secured, unsecured, short term etc), institution type (microenterprise and microcredit lenders included in "other credit providers"), value of the transaction and estimated income of the borrower.

The other notable exception is Tanzania, where BOT's economic policy division has tried to monitor the broader microfinance sector and has embarked on a data gathering process over the last three years. This monitoring was reportedly done by identifying 200 of the largest unregulated MFIs in operation and gathering data from them on an annual basis. Data gathered relates to the financial performance of the institutions (including self sustainability, the number of clients, the size of the loan portfolio etc). Unfortunately, this data has never been captured or consolidated into a database, which makes it very difficult to use internally, and impossible to make publically available. Again, a lack of capacity has slowed the process of consolidating this data.

- **SADC microfinance 'data bank':** The ILO process had reportedly initiated a process of developing a central SADC microfinance 'data bank', however, no evidence of such a data bank currently exists, with any momentum that was previously gathered long since lost. Not only are countries generally not monitoring their sectors effectively enough, but even where data is gathered through the supervisory process, it is generally not made publicly available. Even the data requested for this CCBG endorsed study returned hap-hazard results. The only instances where consolidated industry data on regulated institutions was made publically available was in South Africa and DRC. The lack of data experienced by SAMCAF in 2003 is very much still a feature of the SADC market today.

- **Commercial bank reporting:** In addition to the lack of reporting by MFIs, commercial banks are generally not required to report at a sufficiently segmented level to enable industry stakeholders to get a sense of the contribution that commercial banks make to microfinance. Consideration should be given, across SADC, to requiring banks to report at a segmented level. However regulators should work with banks to ensure that the requirements are as straightforward as possible, requiring only minimal system adjustments (if any). Such reporting would allow for better monitoring of the sector, especially where the private sector is expected to play a role in financial inclusion. More importantly it will also enable regulatory impact assessments to include the impact on banking sectors.

- **Monitoring going forward**: Improving monitoring and data reporting must be a key area of focus for SADC microfinance regulators going forward. This is vital if countries expect to get a better understanding of the sector, and monitor the impact of their regulations. Prior to focusing on a SADC level 'data bank' capacity constraints should be addressed in each country to ensure that country level data is collected, collated and made publically available. The need for a SADC level 'data bank' can be reconsidered once progress has been made in each country.

5.1.4. Extent of Support

As mentioned, MFIs in SADC face a number of constraints. In particular MFIs typically face severe funding constraints; and are in need of institutional support which includes technical assistance and know-how, capacity building initiatives to develop skills in MFI staff, and systems support. Support for the sector is largely focused on these areas, but also includes initiatives targeting government, including in terms of developing the policy, regulatory and supervisory environment.

Support for the sector typically comes from donors, government, and microfinance associations, or a combination of these stakeholders.

Government support: Government support for the microfinance sector in SADC typically involves i) investing in improving the legislative and regulatory environment, ii) the provision of wholesale funding; and iii) the direct provision of financial services targeting low income segments. As previously mentioned there have been significant changes in the microfinance policy and regulatory environments since the 2003 SAMCAF study. While there is still some work to be done in better aligning with some of the regulatory principles (such as removing interest rate caps), there is much progress to be celebrated on this front.

In terms of the provision of funding, there is still a concerning amount of direct government provision, without sufficient consideration of how best to leverage, and spur, the capabilities within the private sector. While further research may be required to determine whether the role of government could be better player via the private sector in small markets such as Mauritius and Seychelles (where a lack of scale may be a constraint to the private sector); in larger markets like South Africa government should look to better leverage the private sector rather than directly provide microfinance to enterprises. The private sector has generally shown to be more efficient, and does not carry with it the market distorting (in terms of price and repayment culture) effects that government initiatives often have.

On the positive side, some of the more recent support interventions seem to be acknowledging the benefit of private sector provision, even at the level of apex funds[43]. In particular countries like the DRC and Zimbabwe[44] have designed their apex funds to include professional management by private sector players, while still working closely with the respective central banks.

One of the benefits of engaging with private sector fund managers may be due to lack of knowledge and expertise as well as inefficiencies at public sector level. One such example where government inefficiencies have resulted in an unsuccessful apex fund is in the case of the South African Microfinance Apex Fund (SAMAF). SAMAF operates under authority of the South African Department of Trade and Industry (DTI), as a wholesale funding institution. Funds are disbursed upon successful application by South African development focussed MFIs and cooperatives for purposes of on-lending. SAMAF also provides grants to institutions for purposes of technical support. Weak managerial capacity among qualifying institutions, together with slow take up of funds, fraud, poor reporting, and the loss of jobs resulting from the global crisis, have all been used in an attempt to explain poor repayment rates. "As of 2009, 50% of SAMAF's loans were in arrears and 7% was written off"[45]. Further, SAMAF has failed to disburse the majority of the available funding. That is, between 2006 and 2009, only 21% of the US$41.5 million funding it received was disbursed[46].

Donors: In SADC there are typically three key roles that donors play. The first is through direct support to the sector, either in the form of loan funding for on lending or grant funding for institutional support. This assistance is provided both directly to institutions, such as SEF in South Africa, or via focused country level microfinance initiatives such as PASMIF in the DRC (discussed below). The second main type of donor support comes in the form of broader

[43] An apex fund refers to "wholesale mechanisms that channel funds, with or without supporting technical services, to retail microfinance institutions" (Levy, 2002).
[44] Yet to become operational.
[45] (FinMark Trust, 2010)
[46] (FinMark Trust, 2010)

financial sector support initiatives, such as the Financial Sector Development Plan (FSDP) in Zambia (also discussed below), which aims to improve the broader financial system for example tackling weaknesses such as consumer education and a poor credit culture (both of which would benefit the microfinance sector). The third level of support is to government, most notably to support the development of a suitable policy and regulatory framework but also in developing regulatory capacity. An example of this is the funding that NBFIRA in Botswana received from African Development Bank (AfDB) to develop and support the implementation of a Risk Based Regulatory Model (RBRM) for all prudentially regulated non-bank financial institutions.

In addition to the above, donors also play an important role at the 'international' level. In particular, the work of institutions such as CGAP in terms of developing and publishing the current thinking on 'best practice' regulatory principles for microfinance is extremely beneficial to SADC policymakers in identifying the challenges that exist, the balancing act that is required, and the arguments for and against various stances. Similarly the role of donors in supporting information sharing and transparency through institutions such as the Microfinance Information Exchange (MIX) is also notable. Funders of this initiative include the Ford Foundation, MasterCard Foundation, CGAP, and Bill and Melinda Gates Foundation, to name a few.

Despite the positive role that donors play, it is important to note that their contribution to microfinance in SADC has been impacted by the global crisis, with a number of MFIs finding the availability of funding constrained as a result.

Microfinance associations: In countries where associations are present they typically strive to support member institutions through a combination of the following: i) technical assistance and training; ii) lobbying with government to influence policy change; iii) helping members solicit finance through the private sector and international donors; and iv) in some cases compiling, storing and disseminating data and information to members. The general status on associations throughout SADC is that while associations are still committed to supporting members, lack of funding, lost donor support and significant resource constraints have resulted in reduced support activity. Examples of this include South Africa, Tanzania and Zambia. While most associations tend to rely heavily on member contributions, the Zimbabwe Association for Microfinance Institutions (ZAMFI) still enjoys significant donor support, whereby 85% of its budget is donor funded.

Table 11 below summarises the key sources of support found in each country within SADC.

Table 11: Summary of support[47] initiatives typically found across SADC

Best Practice	Angola	Botswana	DRC	Lesotho	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Microfinance/ Micro lender Association	✗	✓	✗	✗	✓	✗	✓	✓	✗	✓	✗	✓	✓	✓
Donor support (funding and institutional capacity building)	✓	✗	✓	✓	✓	✗	✓	✗	✗	✓	✓	✓	✓	✓
Public support (funding and institutional capacity building)	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✗
Direct public provision of microfinance service	✓	✗	✗	✓	✓	✗	✓	✗	✗	✓	✗	✗	✗	✗

Source: (Genesis Analytics, 2011)

While the broad support approaches have been discussed above, below are some specific examples of support interventions from various SADC countries:

Lesotho - Support to Financial Inclusion in Lesotho (SUFIL)

SUFIL is a joint program by United Nations Development Program (UNDP) and United Nations Capital Development Fund (UNCDF), with the Government of Lesotho. The initiative is a good example of a broad financial sector donor support initiative, delivered in partnership with the government. The overall objective of the program is to expand access to financial services and promote entrepreneurial activities among low-income individuals, particularly females in urban and rural areas.

The program seeks to achieve its objectives by i) improving the regulatory and policy environment; ii) strengthening capacity of service providers; iii) implementing a consumer education program; iv) improving access to a broader range of products, especially by encouraging suitable financial service providers to transform to deposit taking institutions.

According to UNDP, it has budgeted US$450,000, while UNCDF has budgeted US$800,000[48], and the Central Bank of Lesotho has budgeted approximately US$13,000. The program is expected to run for two years from 2010 to 2012.

DRC – Program of Support to Microfinance Sector (PASMIF)

Perhaps the largest support program in DRC has been the Program of Support to Microfinance Sector (PASMIF)[49]. The program is another good example of donors working closely with the government, and also providing a range of support mechanisms. Initiated by UNDP and UNCDF, the project is intended to contribute to poverty reduction through three levels of interaction with the sector. These levels are as follows:

[47] Public sector microenterprise support programmes excludes their role in state owned DFIs such as the Development Bank and state owned Building Societies
[48] (United Nations Development Program, 2011)
[49] The following information on PASMIF is from an interview with the Director General of FPM (FPM, 2011).

Micro level: Involving the development of an appropriate institutional framework, by supporting the development of a national policy on microfinance and further development of a national strategy for microfinance. Support is directed at government and the central bank.

Meso level: Providing support to all intermediaries in the sector. Government, private sector, MFIs, banks and investors are to benefit through technical assistance and training.

Macro level: Developing a sustainable supply of microfinance. This will involve the development of an apex fund, to provide funding to the institutions themselves.

As part of PASMIF two separate institutions were established one year into the program. Critically these institutions are managed by the private sector. The first is classified as an NGO, and is engaged only in technical assistance (grant funding) through a US$7 million fund. The second is the apex fund, termed the Fonds de Promotion de la Microfinance (FPM)[50], which is a US$20 million fund with a three year maturity (expiring 2013). FPM seeks to target at least 15 MFIs (including cooperatives) and five banks during its three year initial lifecycle. Given that FPM is not a financial institution, it is unable to lend out funds itself. Instead, it uses commercial banks as intermediaries. Banks provide the loans themselves and FPM stands as guarantee. To incentivise banks, FPM also pays banks a commission for their intermediary role. This relationship is also intended to allow banks to test the waters with MFIs; given that they have up till now, been largely unwilling to lend to MFIs. This arrangement allows them to assess the profitability of MFIs as clients. It is the intention of FPM to build relationships between banks and MFIs, such that banks will be more willing to provide wholesale funding to institutions in the future. FPM does not provide technical assistance.

In order to qualify for funding through FPM, institutions must adhere to certain criteria: The institution must be licensed, it must have a minimum of 300 active clients, and it must be showing a good growth trend. What's more, it must satisfy certain financial criteria such as a maximum PAR > 30 days of 10%. FPM is restricted from providing funding in excess of 60% of the applicant institution's loan portfolio and not more than 200% of their equity. Unlicensed institutions cannot access funding through FPM, but are eligible to apply for capacity building and technical assistance through the NGO.

The government of DRC has directed its grants received from the World Bank in support of microfinance to FPM to manage on its behalf. Recently the fund has received an extension to incorporate SME lending as part of its scope of support. For this reason, the fund has extended its reach to commercial banks involved in SME lending, and those wishing to engage in microfinance through downscaling.

Malawi – Central Processing Hub

The most significant donor project in Malawi is a donor funded initiative with the purpose of developing a central loan processing hub.[51] The project is funded by The World Bank and DFID, and is intended to provide core lending infrastructure to the sector. The infrastructure can be shared by several institutions, thus avoiding duplication of investment in loan processing solutions. As this type of technology is often expensive and typically beyond the reach of smaller institutions, this shared structure is believed to be more cost effective. Institutions using the hub will have access to preliminary assessments of clients, loan histories with other subscribed institutions, and knowledge of loans with other microfinance providers, thereby reducing information asymmetries and the associated levels of risk.

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[50] Also known as the Microfinance Promotion Fund.
[51] The loan processing hub is at its inception and is yet to be formally implemented (RBM, 2011).

Zambia - Financial Sector Development Plan (FSDP)

Another country where direct donor support has shifted to broader financial sector initiatives is in Zambia. International agencies such as CEDA, USAID and HEVOS have moved their support to the Financial Sector Development Plan (FSDP). FSDP is a broad-based government-led initiative under the Ministry of Finance and National Planning. The goal of the FSDP is to "create a stable, sound and market-based financial system that supports the efficient mobilisation and allocation of resources necessary to achieve economic diversification, sustainable growth and poverty reduction".[52] In particular it seeks to address weaknesses that relate to i) low levels of financial intermediation; ii) a poor credit culture in the market; iii) the multiple and potentially conflicting roles of government in the financial sector; iv) the undeveloped capital market; v) the lack of long-term development and housing finance; and vi) the limited number of monetary policy instruments. As a broad-based strategy, government will seek to embark on consumer education drives, in an attempt to reverse poor credit culture. Although targeted at the entire financial system, the microfinance sector would benefit from the successful implementation of (many of the aspects of) this initiative.

Swaziland – Microfinance Unit in the Ministry of Finance

Arguably the most notable initiative in Swaziland is the recent establishment of a Microfinance Unit by the Ministry of Finance, with support from IFAD. The unit has been formulated to execute the plans of the Rural Finance and Enterprise Development Program (RFEDP). Its intention is to facilitate rural access to finance (including formal commercial banking) by utilising three main methods of intervention (focused on providing institutional support and creating a conducive environment for microfinance).

Firstly, the unit will seek to influence policy change such as KYC requirements, which could be constraining on individuals who desire to obtain bank accounts. Secondly, it will embark on institutional development and capacity building initiatives on the institutions themselves. This will involve i) ensuring that institutions are informed of the latest developments relevant to their activities; ii) establishing a linkage between MFIs and commercial banks to encourage wholesale lending to MFIs, and for banks to inform MFIs on how to improve eligibility for funds; and iii) the provision of information, and training on issues of governance. Lastly, the unit will embark on consumer education drives that will seek to bolster demand for credit and financial services[53].

The RFEDP is explicit in that it will not provide financial support to rural-based financial institutions but will rather seek to address issues on both the demand and supply side of the market through facilitation.

Continued support of microfinance in SADC is vital to ensure that inroads are made to promote continued growth. Currently, Southern Africa has the second lowest level of activity in Sub-Saharan Africa and support mechanisms should seek to primarily address key constraints to reverse this situation. Areas of effort should be focused on the establishment of apex funds to address the constraint of access to funding; consumer education drives and broader financial sector development, to address low repayment rates; and support initiatives to promote technology, branchless banking or mechanisms to lower risk, similar to the loan processing hub in Malawi or establishment of credit reference bureaus.

[52] Financial Sector Development Plan for Zambia 2004-2009, Ministry of Finance and National Planning (The Government of Zambia, 2004).
[53] (Myeni, 2011)

6. CONCLUSIONS AND RECOMMENDATIONS

In 2003, in conjunction with the ILO, a baseline study was conducted by SAMCAF, which recommended that monitoring of the sector be improved, regulation be explored and formal financial integration of microfinance be adopted. In terms of progress since that report, there are two particularly notable findings. Firstly, despite the acknowledgement of the need for, and importance of, improved monitoring of the sector, progress on this front has been very limited. The planned SADC microfinance 'data bank' never materialized, and most countries still only capture limited data on the sector at best (predominantly from prudentially regulated institutions).

Secondly, and more positively, there has been significant progress in terms of introducing regulations catering for microfinance; with a move towards formal financial integration of microfinance in the region. While in 2003 the planned improvements in monitoring were seen as important to guide the introduction of appropriate microfinance policies and regulations, these regulations have largely been introduced without a comprehensive view of the sector; with governments relying instead on the limited data available, snapshot sector overviews, and qualitative information.

While the formalization and legitimization of the sector is welcomed, there are some areas where additional consideration should be given to the reasons for divergence from the proposed and widely accepted CGAP regulatory principles. For instance, a number of countries still employ interest rate caps, and there is also still a general lack of consumer protection in the industry. Further, in some instances the supervisory capacity and the regulatory requirements may be misaligned, with the regulations placing responsibilities on the supervisor which are difficult to meet, particularly given common resource constraints, and other priorities (most notably commercial bank supervision). Other more complicated issues such as the treatment of forced savings and the appropriate level to set minimum capital requirements for deposit – taking MFIs also require additional consideration.

MFIs across the region face similar constraints, which relate to funding, infrastructure, and the need for institutional support (specifically relating to technical knowhow, skills shortages, and a lack of suitable systems). Support to the sector is available in all countries and largely strives to address these issues, as well as other issues relating to improving the policy environment. Unfortunately there are no easy and obvious solutions to these constraints that should be implemented across the board. Arguably the most interesting development, however, has been the recent move in DRC and Zimbabwe to allow industry assistance mechanisms (such as apex and technical assistance funds) to be run by the private sector.

The following high level recommendations are outlined for CCBG, FinMark Trust, and country level regulator consideration (more specific country level recommendations are outlined in the country reports):

- **Regulator engagement**: The specific country reports that were developed as part of this project make a number of recommendations, and highlight specific issues that individual regulators should give consideration to. FinMark should engage with country regulators on the content of these reports and the recommendations therein. These discussions could be useful in terms of identifying specific areas that regulators require assistance with, and which are aligned to FinMark's core mandate which is to make financial markets work for the poor.

As an example, in countries such as Botswana, Lesotho, Swaziland and Zimbabwe, the final hurdle to establishing microfinance regulations and/or the envisaged regulatory body is yet to be overcome. FinMark should explore the potential to provide financial support to these regulators to assist in finalizing and operationalising the regulations.

- **Regulation**: As mentioned above, despite the significant progress on the regulatory front, there are still some issues where additional work may be required. These areas should be understood in the context of the need for dynamic regulation. That is, as the supply of and demand for microfinance services change, and regulators learn from regulatory successes and failures in their own and other countries; the regulations should be updated and enhanced.

  FinMark, as well as other donors, can play a valuable role in terms of communicating these successes and failures, as well as in terms of supporting the development of regulatory changes where required. Regulators, and those donors and consultants advising governments, will however need to be sensitive to the often very different country contexts. Care should also be taken by the regulators to ensure that the industry in each country is consulted and their views considered prior to publishing new or amending existing regulations.

  As mentioned above the key regulatory issues requiring attention include the treatment of forced savings, prudential regulation of credit-only MFIs, setting the minimum capital requirements for deposit taking MFIs, interest rate caps, and consumer protection.

- **Monitoring:** The level of data collection on the industry still presents a major concern. There has been a severe lack of traction on the idea of a central SADC 'data bank'. While a central 'data bank' could be reconsidered in the future, at this stage priority should be given to the country level collection, and public dissemination, of relevant data. There is need for i) a support role in terms of advising countries on the type of data that is required[54], and ii) technical assistance at the country level in terms of the process of collecting the necessary data, developing an appropriate database, managing and maintaining the database, and publishing the data. Both FinMark and CCBG could play a facilitative role on this. Tanzania in particular would be a good starting point, given that much of the data has already been collected.

  Further to this, there is currently a severe lack of understanding of both the credit only MFI lending environment, as well as commercial banking lending. Where banks are believed to play an important role in the provision of microfinance, regulators should consider requiring sufficiently segmented reporting from banks. Regulators should work with banks to ensure that the requirements are as straightforward as possible, requiring only minimal system adjustments (if any). Such reporting would allow for better monitoring of the sector, especially where the private sector is expected to play a role in financial inclusion. More importantly it will also enable regulatory impact assessments to include the impact on banking sectors.

  In terms of monitoring credit-only MFIs, regulators need to be cautious to balance resource constraints with the need for accurate information. Again here there are no hard and fast rules, and regulators would potentially benefit from technical assistance

[54] What is required is more of a confirmation of approach (with some improvements), rather than a radical change of direction.

in terms of the process of defining a size threshold under which the benefit of monitoring institutions is not worth the cost[55]. FinMark could consider playing this well, as could other organizations such as the AfDB.

- **Impact assessments:** Given the differences that exist in the current regulatory environments across the region, the need for regulatory impact assessments is great. These assessments would benefit from accurate industry level data, but should also involve more detailed assessments of the impact on specific institutions.

  The importance of institutional and intervention specific impact assessments of support mechanisms cannot be overstated. As with regulatory impact assessments, these support assessments need to be independently conducted, and the results disseminated broadly. The public dissemination is critical so that stakeholders across the region (and more broadly) can learn from both the successes and failures of other stakeholders. Impact assessments are another area where FinMark Trust could play a potentially important funding and facilitative[56] role.

- **The role of government:** Despite concerns being raised by SAMCAF and a number of other players regarding the potentially distorting effects of direct government interventions, there are still numerous example of this across SADC. While the provision of much needed wholesale funding is welcomed; wherever possible governments should look to leverage the private sector rather than play a direct (retail) role in the provision of microfinance.

[55] This threshold would clearly differ between countries.
[56] Facilitative in terms of getting regulator buy in and the associated access to available data and stakeholders.

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APPENDICES

I. CGAP SUPERVISORY PRINCIPLES [57]

In addition to prudential and non-prudential principles, CGAP offers some supervisory principles which may prove useful to consider how supervision of microfinance is different to commercial banking. It is often assumed that MFIs could be supervised in a similar way to commercial banks. However, differences between these two categories of institution must be considered when determining the appropriate supervisory tools and the appropriate supervisor.

A review in accordance with these principles is especially useful before SADC central bankers rush into regulate. Knowing what's in store from a supervisory point of view may be the deciding factor for most governments going forward.

Principles relating to microfinance supervision can be explained by way of key differences between MFIs and commercial banks. These principles include the following:

i. **Different skills and techniques may be required when supervising microfinance activity.** As an example, MFIs typically disburse thousands of very tiny loans as opposed to a small number of large loans, as is often the case with commercial banks. As supervisors often lack the man-power to conduct thorough investigations on an institution's loan portfolio, bank supervisors often utilise sampling techniques to get a view of portfolio quality. In a commercial bank setting, a supervisor could get quite a comprehensive view by focusing its tests on a small sample of very large loans. In a microfinance setting, the sampling approach needs to span thousands of samples to come close to the same level of comprehensiveness over the quality of the loan portfolio. Therefore, existing skills of reserve bank examiners (used in a commercial bank setting) may not be adequate for supervising MFIs.

ii. **Similar defense mechanisms to avoid bank failures will not necessarily work for microfinance.** When a commercial bank gets itself into trouble, supervisors often instruct it to cease further lending until it gets itself back on track. Even if it stops disbursing new loans, it can still collect on existing loans because of the collateralised nature of its portfolio. Similar methodology cannot necessarily be applied to MFIs. If the MFI stops lending; microfinance clients will realise the institution's inability to provide follow up loans. Critically the prospect of follow up loans often plays an important role in incentivizing repayment. The lack of **collateralised loans or collateral valued less than the outstanding loan amount, disincentivises re-payment** and increases the difficulty of MFIs to collect on its outstanding portfolio.

   Another option when supervising commercial banks would be to transfer or even merge the portfolio with another, more stable, bank when it is found that the commercial bank is failing. This too is difficult in a microfinance setting where loans are not collateralised, and where the relationship with the MFI is often very important (and without which the portfolio's value may be significantly reduced).

iii. **The cost of supervising microfinance, in addition to commercial banks should be considered before licensing occurs.** In the same way that microfinance costs are greater as a proportion of the loan book than bank costs, so too is microfinance

[57] (Christen, Lauer, Lyman, & Rosenburg, 2011)

supervision costly as a proportion of the size and importance of the institutions. In addition, training examiners to adequately deal with the issues described in i. and ii. above escalate supervision costs. For these reasons, regulators need to consider how many initial licenses it can bear to issue at first. Thus, licensing requirements need to be carefully considered and adequate thresholds adopted to segment those institutions more desperately in need of adequate supervision from those that are very small and able to continue unsupervised.

In most cases the best regulator for deposit-taking MFIs would be the central banks. Supervision over non-deposit taking MFIs and smaller financial cooperatives may be delegated away to some external or newly formed regulatory authority. However, there have been very few instances where delegated prudential supervision has actually worked. This is often only the case in instances where the primary regulator (that is, the central bank) has closely monitored and had effective control over the delegated authority. This is often an inefficient expectation of the principle regulator.

iv. **Financial cooperatives, or at least the large ones, need an element of prudential regulatory oversight by some regulator with the relevant skills set.** This principle is subject to debate because SACCOS, while dealing in both credit and savings, deal only with members. These members effectively own a portion of shares through their level of savings, and are partly responsible for running of the institution through voting rights in general meetings. Thus, where prudential requirements are typically administered to protect public funds, SACCOS only deal with members' funds and are deemed by some to not require full prudential regulation. However, SACCOS, especially those that are financially strong and have grown into large institutions, operate in similar fashion to small commercial banks. As a result, members find themselves having less control over the use of their funds as their membership dilutes. Members often find themselves in a similar position to public depositors at commercial banks in terms of having very little or no control over the institution.

CGAP thus recommends that financial cooperatives be prudentially supervised either by special departments in their primary regulators or by separate agencies, with the necessary skills. In many cases it may be best to allow smaller cooperatives to continue operating largely unsupervised.

II. LIST OF INTERVIEWEES

Table 12: List of interviewees

Country	Organisation	Interviewee	Job Title
Angola	KixiCredito	Joaquim Catinda	Chief Executive Officer
Botswana	Bank of Botswana	Phemo Marumoagae	Manager Capital Markets
Botswana	Bank of Botswana	Kuki Mophuting	Manager Capital Markets
Botswana	Micro Lenders Association of Botswana	Burrie Malan	Chairman
DRC	Banque Central du Congo	Marie Jose Nadaya Ilunga	Deputy Director Microfinance Supervision
DRC	Fonds de Promotion de la Microfinance	Jean-Claude Thetika	Managing Director
Lesotho	Central Bank of Lesotho	Ntee Bereng	Head Non-Bank Supervision
Malawi	Reserve Bank of Malawi	Lanjes Sinoya	Manager Microfinance Supervision
Malawi	Reserve Bank of Malawi	Eldin Mlelemba	Manager Microfinance and Capital Markets
Mauritius	Ministry of Finance	Mr Mohamadally Mownah	Senior Analyst
Mozambique	Banco de Mocambique	Juvencio Nhaule	Assistant Manager Banking Supervision
Mozambique	Banco de Mocambique	Nicolau Ndlalane	Bank Examiner Banking Supervision
Mozambique	NovoBanco ProCredit	Yann Groeger	General Manager
Mozambique	Socremo	Ben Botha	Chief Executive Officer
Namibia	NAMFISA	Rachelle Metzler	Manager Micro lending and Credit Agreements
Namibia	Bank of Namibia	Ismael Naukosho	Manager Banking
Seychelles	Central Bank of Seychelles	Mr Naadir Hassan	Director Financial Services Supervision
South Africa	National Credit Regulator	Rajeen Devpruth	Manager for Statistics
South Africa	Association for Microfinance Institutions in South Africa	Steven Mkanata	Official Representative
Swaziland	Central Bank of Swaziland	Bhekizwe Dlamini	Assistant Director Banking Supervision
Swaziland	FINCORP	Dumisani Msibi	Program Director
Swaziland	Ministry of Finance	David Myeni	National Programme Director Microfinance
Tanzania	Bank of Tanzania	Harry Ndambala	Manager Microfinance Supervision
Tanzania	Bank of Tanzania	Sadati Musa	Assistant Manager Microfinance Supervision
Tanzania	Tanzania Association of Microfinance Institutions	Joel Mwakitalu	Appointed Representative

Zambia	Bank of Zambia	Visscher Bbuku	Deputy Director Banking Supervision
Zambia	Association of Microfinance Institutions in Zambia	Webster Mate	Chairman
Zimbabwe	Reserve Bank of Zimbabwe	Gift Chirozva	Chief Examiner Bank Licensing , Supervision and Surveillance
Zimbabwe	Reserve Bank of Zimbabwe	Norah Mukura	Senior Executive Microfinance Supervision and
Zimbabwe	Zimbabwe Association of MIcrofinance Institutions	Godfrey Chitambo	Chief Executive Officer