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Enhancing the Microfinance Landscape in the SADC Region: Evaluating Regulatory Frameworks and Support Systems

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Acronyms

Acronym	Definition
AAIM	Associação Angolana das Instituições de Microfinanças
AMIZ	Association of Microfinance Institutions of Zambia
AMOMIF	Mozambican Association of Microfinance Operators
ANIMF	Association Nationale des Institutions de Microfinance en RDC
ARDIS	African Rainfall Index Insurance for Development and Sustainability
AUM	Assets under Management
BCC	Banque Centrale du Congo
BNA	Banco Nacional de Angola
BOZ	Bank of Mozambique
BOT	Bank of Tanzania
BOZ	Bank of Zambia
CBL	Central Bank of Lesotho
CBS	Central Bank of Seychelles
CCBG	Central Bank Governors
CCPC	Competition and Consumer Protection Commission
CGAP	Consultative Group to Assist the Poor
CISNA	Committee of Insurance, Securities and Non-Banking Financial Authorities
CRR	Cash Reserve Ratio
DFS	Digital Financial Services
DRC	Democratic Republic of Congo
EFSRA	Eswatini Financial Services Regulatory Authority
EU	European Union
FSC	Financial Services Commission
FSCA	Financial Sector Conduct Authority
FSP	Financial Service Provider
FSRA	Financial Services Regulatory Authority
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMS	Information Management System
KfW	German Development Bank
KYC	Know Your Customer
MAMN	Malawi Microfinance Network
MFI	Microfinance Institution
MFSA	Microfinance South Africa
MLA	Microlenders Association of Namibia
MNO	Mobile Network Operator
MSME	Micro, small, and medium-sized enterprises
MUSCCO	Union of Savings and Credit Cooperatives
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFI	Non-Banking Financial Institutions
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NDMFSPs	Non-deposit-taking microfinance service providers
NCA	National Credit Act
NCR	National Credit Regulator
NFIS	National Financial Inclusion Strategy
NGO	Non-Governmental Organizations
NSFR	Net Stable Funding Ratio
PAMF2	Première Agence de Microfinance
PAR	Portfolio-at-Risk
RBM	Reserve Bank of Malawi
RBRM	Risk Based Regulatory Model
RBZ	Reserve Bank of Zimbabwe
SACCO	Savings and Credit Cooperative Societies
SADC	Southern Africa Development Community
SAMAF	South Africa's Microfinance Apex Fund

SEF	Small Enterprise Foundation
SIBE	Support to Improving the Investment and the Business Environment
TAMFI	Tanzania Association of Microfinance Institutions
USAID	United States Agency for International Development
VSLA	Village Saving and Loan Association
WOCCU	World Council of Credit Unions
ZAMFI	Zimbabwe Association of Microfinance Institutions

Executive Summary

This study aims to refine existing regulatory principles to ensure that they effectively cover the activities of microfinance institutions (MFIs), thereby facilitating their expansion and impact. MFIs play an important role in supporting economic growth, particularly in developing countries, by providing financial services to micro-entrepreneurs and small businesses that often lack access to traditional banking. However, the regulatory framework for MFIs in the SADC region is underdeveloped in some countries, posing a challenge to their growth and impact.

To comprehensively assess the microfinance regulatory landscape in the SADC region, a mixed-methods approach was employed. This involved reviewing existing regulatory frameworks, engaging with key stakeholders, and conducting semi-structured interviews with regulators and representatives from microfinance associations across nine member states. The insights gathered from these efforts were used to evaluate the effectiveness of current regulations, identify areas for improvement, and explore opportunities to facilitate growth of the sector. The lack of publicly available data in the microfinance sector in the SADC region is still a major problem, as it was in the 2011 SADC Microfinance Study. However, some insights can be used to inform recommendations for refining existing principles and fostering a more conducive environment for the development of the MFI industry.

In the 2011 SADC Microfinance Study, FinMark Trust and Central Bank Governors (CCBG) found that the microfinance sector in the SADC region was growing rapidly but that there was significant variation in the regulatory frameworks of different countries. The report identified several challenges that included a lack of reliable data, limited monitoring, and inadequate support. The report recommended that countries should adopt a comprehensive approach to microfinance regulation, including both prudential and non-prudential regulations.

Since 2011, there has been a general upward trend in the level of financial development and growth in the microfinance sector across many SADC countries. The microfinance sector has grown steadily, with a significant increase in the number of MFIs, borrowers, and assets. This growth has been driven by several factors, including the increasing demand for financial services from low-income individuals and businesses, the expansion of mobile technology, and the growing recognition of the importance of microfinance in promoting financial inclusion.

MFIs are now generally categorised into three distinct groups: deposit-taking MFIs, credit-only MFIs, and SACCOs/Cooperatives. The number of deposit-taking MFIs has increased significantly in recent years, with 11 out of the 16 SADC Member States now granting deposit-taking licenses to MFIs. However, the number of non-deposit-taking MFIs remains comparatively larger. SACCOs or credit unions have a significant presence in the SADC region, particularly in Tanzania and Botswana. However, despite their growth and diversity, formal SACCOs constitute a fractional segment within the broader financial ecosystem.

SADC governments have been actively developing microfinance policies and refining regulatory frameworks to promote financial inclusion and alleviate poverty. The regulatory approach to MFIs in the SADC region remains diverse, with some countries opting for MFI-focused regulatory frameworks and others incorporating MFIs within broader financial sector laws. The primary regulator of MFIs in most SADC countries is the central bank, and the regulatory framework varies in its approach to addressing prudential and conduct aspects.

Prudential regulations exhibit diverse approaches that align with each member state's economic and institutional context. Some nations adopt comprehensive prudential regulations covering all MFI types, with a strong focus on broadening access to financial services, particularly in early-stage microfinance sectors. In contrast, more established MFI sectors within the SADC region emphasise stability and risk mitigation and often concentrate regulatory efforts on larger, complex institutions. In well-established microfinance sectors, prudential regulations often include comprehensive provisions such as stress testing, internal controls, and sophisticated risk mitigation mechanisms. Conversely, in nascent microfinance sectors, regulations tend to prioritise the establishment of minimum capital requirements to ensure financial stability. This introduces complexities in the harmonisation and standardisation of prudential regulations across the region.

All SADC member states have adopted some form of non-prudential microfinance regulation to protect consumers and promote responsible lending practices. Non-prudential regulation has expanded its scope and intensity in recent years, reflecting a growing awareness of the need to regulate all participants in the sector. Despite the diverse approaches to regulation within the SADC region, most countries have converged on key regulatory principles. Several countries are progressing toward establishing dedicated non-prudential regulators for their financial sectors. Other principles include the necessity to define MFIs based on their functions, services, and products and to adopt regulations that encompass both prudential and conduct aspects.

The regulatory frameworks and draft laws for microfinance in the SADC region align closely with the CGAP guidelines, but improvements are still needed in certain areas. The CGAP Microfinance Consensus Guidelines are widely recognised as the international best practice for microfinance regulation. Additionally, CISNA is developing draft model laws to harmonise the licensing, regulation, and supervision of MFIs in SADC member states and establish a framework for licensing and supervision of microfinance activities. These draft model laws are intended to guide SADC countries in creating or updating their own microfinance laws and fostering consistency and best practices in the microfinance industry across the region. The regulatory frameworks and the draft model laws are generally aligned with the consensus guidelines; however, some progress is still needed in some regulatory aspects.

The lack of reliable data remains an issue plaguing the microfinance industry in the SADC region. Some key contributing factors are the limited extent of monitoring, reporting by MFIs and publishing by the regulatory authority, creating a substantial information gap. This is primarily attributed to capacity constraints within central banks and other regulatory bodies. There is limited evidence of regulators actively gathering and disseminating information on the broader microfinance sector. While MFIs are mandated to submit financial statements to regulators, the frequency and complexity of reporting requirements vary significantly across member states. Despite efforts to enhance transparency through the publication of various reports, the comprehensiveness of these reports is undermined by substantial data gaps.

The primary sources of support for microfinance in the SADC region are governments, donors, and microfinance associations. Governments provide funding, legislative and regulatory support, and capacity-building initiatives. Donors provide funding, technical assistance, and advocacy. Microfinance associations provide training, education, and lobbying. The sector is reliant on external support. However, the sector is facing challenges due to the global crisis and a lack of funding. By addressing the challenges identified in this study and implementing the recommended policy measures (available [here](#)), SADC countries can create a more supportive and enabling environment for the microfinance sector to thrive.

1. Introduction

1.1. Purpose And Objectives

Across the SADC region, millions of individuals engage in informal economic activity or operate micro-enterprises, which constitute most enterprises in these countries.¹ Access to finance for these micro-enterprises plays a critical role in fostering both their growth and their contribution to the economy. Moreover, it directly impacts the incomes of those involved in these businesses, influencing their capacity to provide for their families and sustain their livelihoods. Consequently, the MFIs established to extend credit to such enterprises and low-income individuals emerge as critical pillars in the pro-poor economic growth strategies of the countries in the region.²

By catering to the financial needs of micro-entrepreneurs and small businesses that often lack access to formal banking services, MFIs stimulate economic activities. This not only elevates the economic resilience of communities but also generates a positive ripple effect throughout the broader economy, driving increased consumer spending, higher tax revenues, and ultimately enhancing the region's overall economic vitality.³ However, the SADC micro-finance landscape and regulatory framework are believed to be underdeveloped in some SADC Member States, which are marked by different regulatory policies and approaches.⁴ Although there has been some headway concerning policy formulation and microfinance legislation, significant information gaps still exist pertaining to MFIs.

Building upon the gaps highlighted in the SADC Microfinance Study 2011 report, this study has been commissioned by the European Union (EU), Support to Improving the Investment and the Business Environment in the SADC Region (SIBE) programme, **to understand the state of the MFI industry across the SADC region, particularly regarding regulatory frameworks as well as the monitoring and support systems in place.** The primary objective of the assignment is to refine existing regulatory principles to ensure they effectively cover the activities of MFIs, thereby facilitating their progressive evolution into institutions capable of broader outreach and more impactful operations. The specific objectives of this assessment include to:

- Examine and draw lessons from the insights presented in the 2011 SADC Micro Finance Report.
- Define the distinct roles played by MFIs in each SADC Member State, highlighting their contributions.

¹ ILO Background Paper No 4, 2020

² International Monetary Fund, 2016

³ SADC Financial Inclusion Strategy, 2016-2021

⁴ SADC Microfinance Study, 2011

- Outline a tailored regulatory framework appropriate for the microfinance sector, considering the regional context.
- Identify key constraints that impede the growth of MFIs across the SADC region.
- Highlight the primary challenges associated with effectively monitoring MFIs within the region.
- Analyse the areas where regulatory impacts are most significant within individual jurisdictions.
- Recommend ways to enhance regulatory policies and support mechanisms in Member States.
- Define key performance indicators critical for monitoring the progress and performance of MFIs.

1.2. Approach And Methodology

To accomplish the primary objective, a comprehensive approach and methodology were implemented through:

- Reviewing the progress achieved in establishing suitable regulatory frameworks for microfinance in each SADC country.
- Engaging with critical stakeholders within each country to assess the appropriateness and adequacy of the regulatory frameworks that have been established.
- Determining whether these frameworks have cultivated a conducive environment for the development of the microfinance industry.
- Identifying further challenges within the enabling environment that impede the ongoing growth of the industry.
- Identifying further opportunities for collaboration and technical assistance to address persistent challenges in the enabling environment.

This research was conducted using a blend of primary and secondary research techniques. The primary research utilised a mixed methods approach to gather both qualitative and quantitative data through interviews with key stakeholders. A total of 13 interviews were conducted, involving regulators and representatives from microfinance associations across 9 member states. These semi-structured interviews allowed for an in-depth exploration of various fundamental themes, including the assessment of existing microfinance regulations, evaluation of the operational integrity of MFIs in alignment with regulatory frameworks, identification of constraints and the potential growth avenues for the MFI industry, all while strengthening the monitoring and support mechanisms.

Table 1: List Of Interviews

Country	Category	Organisation
Eswatini	Regulatory and policymakers	Financial Services Regulatory Authority (FSRA)
Lesotho	Regulatory and policymakers	Central Bank of Lesotho
	MFI	Lesotho Microfinance Association (LEMFA)
Malawi	Regulatory and policymakers	Reserve Bank of Malawi (RBM)
Namibia	Regulators and policymakers	Bank of Namibia (BoN)
		NAMFISA
	Microfinance Association	Microlenders Association of Namibia (MLA)
Seychelles	Regulators and policymakers	Central Bank of Seychelles (CBS)
South Africa	Regulators and policymakers	National Credit Regulator (NCR)
Tanzania	Regulators and policymakers	Bank of Tanzania (BoT)
Zambia	Regulators and policymakers	Bank of Zambia (BoZ)
Zimbabwe	Regulators and policymakers	Reserve Bank of Zimbabwe (RBZ)
	Microfinance Association	Zimbabwe Association of Microfinance Institutions (ZAMFI)

The secondary research involved an extensive desk-based review of publicly available literature and data sources related to the state of the microfinance regulatory systems in member states. The sources for this information included government publications, the 2011 SADC Microfinance Report, MFI reports, draft Model laws and the MixMarket database.

This multifaceted research approach facilitated a comprehensive and nuanced assessment of the microfinance industry across the diverse SADC Member States. It provided valuable insights into the effectiveness of regulatory frameworks and identified challenges and opportunities within the sector.

1.3. Data Limitations

The lack of publicly available data in the microfinance sector in the SADC region is still a major problem, as it was in 2011. The table below lists the publicly available reports on the sector and their most recent publication date. In addition to the data provided by central banks, the study also draws on secondary data from aggregate sources such as the Mix Market dataset, data from institutions' websites and annual reports, and data from specific country-level and regional research. While the combination of quantitative and qualitative data gathered is admittedly imperfect, it does provide a useful overview of microfinance activities in the SADC region. The information in these documents is shown in the relevant sections below.

Table 2: Data Availability By Country Level

Country	Data sources available	Date	Data completeness
Angola	BNA Annual Reports and Accounts	2022	Partial (No information between 2010 and 2013 for all the MFI types)
	Cooperativa De Credito Annual Report	2020	Complete (The Credit Cooperative Society did not exist in 2013)
Botswana	NBFIRA Annual Report	2022	Partial (Partial information for the cooperatives)
	Bank of Botswana Research Bulletin and Banking Supervision Report	2023	Complete
	Botswana Cooperative Movement	2019	Partial (There is no published data on the cooperatives in the year 2013 or prior)
Comoros	BCC Annual Reports and Quarterly Bulletins	2022	Complete
DRC	Microfinance Activity Reports	2019	Partial (Limited information on all types of MFIs between 2010 and 2013)
Eswatini	FSRA Annual Report and Quarterly Statistical Bulletin	2022	Partial (Limited information on both non-deposit-taking MFIs and cooperatives in 2013 and 2022)
Lesotho	Financial Stability Reports	2022	Partial (Limited information across both non-deposit-taking MFIs and cooperatives)
Madagascar			No reports identified. Additionally, a stakeholder meeting has not established with Central Bank
Malawi	Reserve Bank of Malawi Annual Report	2022	Complete
Mauritius	BOM Financial Stability Report	2022	Partial (Limited information on deposit-taking MFIs)
Mozambique			Missing
Namibia	NAMFISA Quarterly Bulletin	2022	Partial (Limited information on the cooperatives)

	Letshego Annual Report	2022	Complete
	Namibia Cooperatives Policy	2015	Partial (Limited information on Cooperatives in the year 2013 or prior)
Seychelles	Credit union AGM Booklet	2019	Partial (Limited information on the credit union between 2010 and 2013)
South Africa	Cooperative Banking Sector Development Strategy	2019	Partial (Credit-only MFIs are subject to supervision under NCR, the conduct regulator. Information on these institutions is not aggregated)
Tanzania			Not available (BoT does not publish the performance of the MFIs. Waiting on approval to receive this information from the Governor)
Zambia	BoZ Annual Reports	2022	Partial (No information on the number of borrowers)
	NBFI Financial Statements	2022	Complete
Zimbabwe	RBZ Annual Report	2014	Partial (Limited information on all types of MFIs between 2010 and 2013)
	RBZ Quarterly Microfinance Report	2022	Partial (Limited information on all types of MFIs between 2010 and 2013)

Missing: No source of information or data exists

Partial: Some of the required information or partial insights are available

Complete: All the required information is available

Light Orange: Not applicable

2. Evolution Of Microfinance: Learnings From The 2011 Report

This section of the report provides a summary of the state of the microfinance regulatory environment within the SADC region in 2011. FinMark Trust and Central Bank Governors (CCBG) published a report on the state of the Microfinance regulatory environment in the SADC region. The document covered:

- Previous work done on the topic in 2003
- Best practice regulatory principles for microfinance
- Trends across SADC member states with respect to the regulatory environments, support mechanisms, monitoring frameworks, and level of microfinance activity
- Recommendations for improvement in the regulation of the sector

2.1. Microfinance Landscape In SADC

The report highlighted that there had been a strong upward trend in microfinance lending in the SADC region, both in terms of the volume of loans disbursed and the number of clients served. The microfinance sector in the SADC region served low-income salaried individuals and micro/small enterprises with the number of MFIs having increased (both for profit and NGO's), but most of the lending was still done by commercial banks. The report highlighted the involvement of different institutions (MFIs, commercial banks, SACCOs and NGOs) in microfinance lending in the SADC region:

- **Commercial banks:** Commercial banks are active in micro-finance in some SADC Countries (South Africa, Angola, DRC, Mozambique, Tanzania and Malawi in particular), as a result of renewed strategies to target traditionally excluded segments. Within Southern Africa, banks accounted for 81% of microfinance borrowers and 83% of depositors⁵ Most institutions simply provided finance to low-income salary earners through targeted low-income propositions.
- **For-Profit MFIs:** Non-banking Financial Institution (NBFIs) experienced considerable growth in the decade to 2011. They were typically smaller than commercial banks but were often more specialized in microfinance. These institutions were also largely salary-based micro lenders but also included NBFIs operating microenterprise lending on a commercial scale. For-profit MFIs were dominant in smaller countries like Lesotho, Botswana and Eswatini.
- **Saccos or credit unions:** Member-based organisations are the most common type of MFIs in the SADC region by number of institutions, accounting for the bulk of microfinance lending institutions in some countries for example DRC, and Mauritius.
- **Non-Governmental Organizations (NGOs):** NGOs played a less significant role in microfinance lending in the SADC region than they did in other parts of the world, particularly West Africa. However, NGOs, both national and international, were still present in SADC and were perhaps the best providers of rural finance due to their social rather than profit objective. They were important providers of microfinance in some countries, such as Tanzania. However, most NGOs had not reached any significant scale in SADC and often battled with self-sustainability.

2.2. State Of Microfinance Regulation

In 2011, many of the SADC governments had either already enacted microfinance legislation and published regulations or were in the process of developing suitable frameworks, such as in Lesotho and Namibia.⁶ At the time only Mauritius and Seychelles had no intention of developing a regulatory framework specific to microfinance. The report distinguished between prudential regulation and non-prudential regulation, and considered how different countries were approaching these different forms of regulation.

⁵ Derived from CGAP and the MixMarket Database

⁶ The 2011 report was a follow up on work, a formal review of policy and regulatory aspects of microfinance, previously driven by the ILO. This culminated in a report to the CCBG

2.2.1. Prudential Regulation

The approach to prudential regulation differed between countries:

- a. **Extending prudential regulation to deposit-taking institutions only** - Credit-only institutions were subject to prudential regulations in four countries (DRC, Angola, Malawi and Zambia), despite this not being in line with international best practices at the time.⁷ The report suggested that these requirements were to be reconsidered and the costs associated with this practice to be considered.
- b. **Higher capital adequacy requirements** - Many countries were considering introducing regulation to facilitate deposit-taking MFIs with lower capital requirements than commercial banks.
- c. **Unsecured lending limits:** Of those countries that prescribed prudential requirements, DRC, Tanzania, Angola and Mozambique prescribed unsecured lending limits as a proportion of equity of 10%, 5%, 15% and 25%, respectively. The report underscored that limiting MFI unsecured portfolios to some percentage of equity would make micro-lending very difficult for those MFIs (given that unsecured lending was often their core activity). Therefore, the report emphasised that MFI portfolios should not be subject to unsecured lending limits.
- d. **Conditionally allowing the acceptance of forced savings by credit-only MFIs** - The issue of forced savings was treated very differently across countries.⁸ They were treated as deposits in some countries such as Angola, Tanzania and Zambia and required deposit-taking licenses in order to continue the activity. Conversely, in other countries such as DRC and Mozambique, the practice was allowed but institutions were regulated against on lending these funds.
- e. **Loan loss provisions:** All SADC states that employed provisioning requirements on MFIs adopted more aggressive provisioning as soon as loans fell delinquent. Of the countries that employed provisioning requirements, only Mozambique and Tanzania required some provisioning even while the loans were current. In both instances, these requirements were set at 2% of the portfolio.

2.2.2. Non-Prudential Regulation

While prudential regulations were the focus of most regulatory discussions, the report made the point that there were limited non-prudential regulations in the SADC market at the time. Many regulatory bodies placed their emphasis on prudential regulations, while only a handful had implemented non-prudential regulations. Non-prudential regulations were primarily designed to safeguard consumers from the adverse effects of high-interest rates and unscrupulous market practices. The report revealed that only nine countries within the SADC market had non-prudential regulations in place.

Most markets lacked significant consumer protection frameworks, with notable exceptions of Angola, South Africa, and Seychelles. Despite this, most regulators expressed concern about consumer protection and noted that it remained a high priority. The report specifically recommended the implementation of disclosure and transparency requirements, particularly with respect to effective interest rates. It also advocated for the promotion of responsible lending practices and the prevention of abusive collection practices. Importantly, these regulations did not necessarily need to be administered by the prudential regulator but could also be effectively overseen by specialised market conduct regulators, as demonstrated by the case of South Africa.

Furthermore, the report argued that such interest rate limits could potentially impede the sustainability of MFIs by rendering them incapable of covering their operational costs. Only six of the regulators had instituted non-prudential regulations governing interest rate limits. In response to this concern, the report recommended that, in instances where microfinance acts were either yet to be formulated or presented, policymakers should be encouraged to set interest rate limits at a level that allowed MFIs sufficient flexibility to price their services appropriately or, alternatively, to consider eliminating such limits altogether.

Another critical non-prudential issue was the need to introduce credit information systems to manage reckless lending effectively by enabling a more cost-effective and accurate assessment of borrower risk. At the time, only six countries had established credit bureaus that provided information on MFIs. The report mentioned that the bureaus served as an important tool for clients to build up a 'credit reputation', which increased access to finance by reducing information asymmetries. Consequently, the report emphasised that establishing credit bureaus should be a high-priority agenda item for countries

⁷ CGAP Guiding Principles on Regulation and Supervision of Microfinance

⁸ Compulsory or forced savings are defined as the minimum savings that condition the borrower's access to loans and can be seen as a substitute for collateral imposing a positive inducement for repayment

lacking such infrastructure. Additionally, the concept of mandatory reporting by MFIs was advocated for consideration beyond the mere establishment of credit bureaus.

2.3. Challenges

The 2011 report provided a comprehensive summary of key issues concerning the regulation and supervision of microfinance while underscoring the general challenges faced by MFIs in the region. The main challenges identified in the 2011 report included:

2.3.1. Non-Prudential Regulatory Issues

- **Appropriate regulator:** Non-prudential regulations were the responsibility of the prudential regulator in the majority of the SADC Member States. The report emphasised that these can be supervised by focused market conduct regulators (as is the case in South Africa). The countries should consider separating prudential and non-prudential regulators.
- **Interest rate limits:** Administrative costs of lenders do not vary in proportion to loan amounts. As such, the report argued that “MFIs cannot continue to provide tiny loans unless their loan charges are considerably higher in percentage terms than normal banks”. Therefore, interest rate limits were to be avoided.
- **Registering/ licensing lenders:** In many countries, there was no public registry and permit-issuing process. Additionally, the purpose was not clear, e.g., for benchmarking and monitoring purposes.
- **Consumer protection:** There was room for regulations governing reckless lending (leading to over-indebtedness) and abusive collection processes. In cases where the regulations existed, they did not need to be administered by a prudential regulator.
- **Credit bureaus:** There were information asymmetries and limited incentives to pay by borrowers. Additionally, some countries did not have a national ID system or an alternative way of identifying people. The report emphasised that credit bureaus could increase access to finance.
- **Limitations on ownership, management and capital structure:** Foreign resources, including donor and NGO, were often the only available resources for MFIs, particularly those that were yet to prove their sustainability, restrictions on foreign participation were thus counter-productive.
- **Legal transformations:** Regulations did not create a clear path for microfinance transformations, from non-profit to profit and from non-bank to bank.
- **Restrictive regulations:** The regulations designed for deposit-taking MFIs might not be achieving the desired result as in several countries, few entities had applied for licenses.

2.3.2. Prudential Regulatory Issues

The report emphasised that prudential regulations were important to manage systemic risk in the financial system. However, 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 were only to be applied to deposit-taking institutions.

- **Permitted activities:** In several countries, regulations did not clearly state the activities that different types of MFIs were allowed to conduct. The permitted activities (considering the associated risk of each), were to be related to the level of regulation (prudential and other) that the type of institution is subjected to.
- **Capital adequacy:** The minimum capital requirements for deposit-taking MFIs were set lower than for banks which effectively caters for the smaller institutions with the smaller loan books. However, their limited capital may not support the necessary investment in the management information systems, and other infrastructure required to safely accept deposits.
- **Unsecured lending limits:** In some countries, limits are imposed on MFIs unsecured portfolios to some percentage of equity which makes micro-lending very difficult for MFIs (given that unsecured lending is their core activity)
- **Loan loss provisions:** The report emphasised that provisioning for delinquent loans should be more aggressive than collateralised bank loans. Additionally, while over-provisioning for current loans was not advisable, a reasonable level of provisioning even for current loans was prudent.

- **Liquidity risk:** The liquidity risk management options that MFIs had at their disposal were generally less than the options which banks had (for example including easier access to the interbank lending market and the lender of last resort)
- **Reporting requirements:** Many MFIs were small and lacked sophisticated MIS and means of constant communication. Regulators were encouraged to pay attention to these differing circumstances when drafting reporting requirements into the regulations. While reporting was critical for effective supervision, requirements such as daily or even weekly reporting would be virtually impossible for MFIs to adhere to.

2.4. Extent Of Monitoring And Reporting

Lack of reliable data was a key problem that plagued the microfinance industry in SADC, exacerbated by limited monitoring. A key contributing factor was that very little monitoring of the unregulated sector took place. That said, even data on regulated credit-only institutions was sometimes patchy and deemed unreliable. Licensed MFIs were mostly required to report statements of their financial position to their respective regulator, either on a monthly, quarterly, or annual basis. Requirements were typically more onerous and frequent for deposit-taking MFIs; however, the exact requirements differed between countries. For example, Mozambique's deposit-taking microbanks and financial cooperatives were required to submit monthly reports showing adherence to capital adequacy, regulatory capital, and asset and liability coverage ratios (in addition to financial information). Conversely, Lesotho even required credit-only money lenders to report on a monthly and quarterly basis. Reporting requirements for licensed MFIs differed across countries, with more stringent rules for deposit-taking MFIs. Zambia and Mozambique had more detailed reporting requirements.

Some key constraints on the current level of monitoring in SADC included:

- **Capacity issues:** The main constraint to effective monitoring of microfinance in SADC were the significant capacity issues and resource constraints at several central banks. Even when supervision was delegated, as seen in Namibia and Botswana, resource constraints still limited the level of effective monitoring. As a result, monitoring primarily focused on deposit-taking institutions.
- **MFI Data Collection:** Few regulators were actively gathering and disseminating information on the broader microfinance sector. Even where data was gathered through the supervisory process, it was generally not made publicly available. In 2003, 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.
- **Commercial bank reporting:** Commercial banks were not required to report at a sufficiently segmented level to enable industry stakeholders to get a sense of the contribution that commercial banks made to microfinance. This made it difficult to monitor the sector and identify risks. The report encouraged regulators to consider requiring banks to report at a segmented level.

The report emphasised that improving monitoring and data reporting should be a key focus for SADC microfinance regulators. It was essential for gaining a more comprehensive understanding of the sector and assessing the impact of regulations. It was recommended that before creating a SADC-level "data bank", countries needed to address capacity limitations to collect, compile, and share data at the national level.

2.5. Extent Of Support

In 2011, support for the microfinance sector primarily targeted funding constraints and institutional assistance, including technical expertise and capacity building for staff and systems. Donors, governments, and microfinance associations provided this support as detailed below:

- **Government support:** Government involvement encompassed wholesale funding and direct financial services for low-income segments. Across the SADC member states, there had been limited government support to the sector except in South Africa where South Africa's Microfinance Apex Fund (SAMAF) was established.⁹
- **Donor support:** There were typically three roles that donors played. The first was through direct support to institutions, either in the form of loan funding for on lending or grant funding for institutional support. The second

⁹ The mission of SAMAF was to provide developmental finance and non-financial services to financial intermediaries including the wholesaling of funds, the development of institutional capacity, policy development and the development of partnerships.

form of donor support came in the form of broader financial sector support initiatives. The third level of support was to the government in the development of a suitable policy and regulatory framework

- **Microfinance associations:** Microfinance associations aimed to assist members through technical aid, lobbying for policy change, facilitating financing, and information dissemination. However, financial constraints had led to reduced support activities in many associations. Zimbabwe Association for Microfinance Institutions (ZAMFI) was an exception, having benefited from substantial donor backing.

3. Understanding Microfinance In SADC Member States In 2023

This section provides an overview of the microfinance landscape within the SADC region in 2023 using the most recently published information. The analysis covers a range of institutions - credit-only MFIs, deposit-taking MFIs and SACCOs/financial cooperatives and focuses on the level of lending, assets, and client numbers.

3.1. Evolution Of Definition And Nature Of Microfinance

The definition and nature of the microfinance sector have evolved since 2011. In the 2011 report, the categorisation of the MFI sector within the SADC member states differentiated MFIs between banks, for-profit MFIs, NGOs and SACCOs. However, in the years that followed, the countries have shifted their regulation and reporting towards recognising specific business activities within the microfinance and microlending domain. Generally, MFIs are now categorised into three distinct groups: deposit-taking MFIs, credit-only MFIs, and SACCOs/Cooperatives - with less emphasis placed on the nature of their ownership or whether they are for profit. The sector is typically defined across three distinct categories:

- A **“deposit-taking MFI”** is defined as an institution whose principal business is accepting deposits and extending credit to borrowers.
- A **“credit-only MFI”** or **“non-deposit-taking MFI”** is defined as an institution whose principal business is the provision of credit services only.
- A **“co-operative financial institution”** is an umbrella term for deposit-taking financial cooperatives that are owned and controlled by its members; and includes credit unions, savings and credit cooperatives, financial services cooperatives, and financial cooperatives, cooperative banks, which terms are often used interchangeably.

However, it is important to acknowledge that some countries have adopted alternative definitions for their MFIs. For instance, Botswana and Namibia refer to their credit-only MFIs as ‘microlenders’, which are businesses lacking deposit-taking licenses. In contrast, Comoros identifies four mutual establishments or unions as deposit-taking MFIs, with the distinctive characteristic of being 100% owned by Comorian residents. Mauritius defines credit-only MFIs as ‘credit finance businesses’.

Zambia differs significantly from these categorisations, classifying MFIs into two primary segments: consumer lending MFIs and enterprise lending MFIs. Consumer lending MFIs primarily focus on providing financial services and credit products to low-income individual consumers or households. On the other hand, enterprise lending MFIs specialise in providing financial services tailored for micro, small, and medium-sized enterprises (MSMEs) and entrepreneurs. Differing definitions and reporting make it hard to compare the sector between countries.

3.2. Market Growth And Influential Products

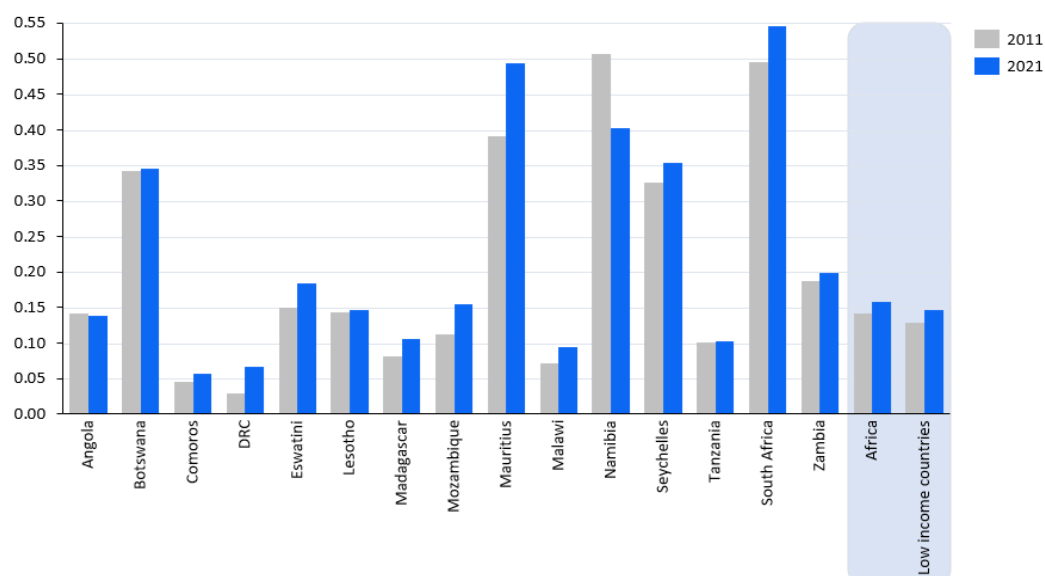
3.2.1 Market Growth Trends

Over the past decade, there has been a general upward trend in the level of financial development across the majority of SADC countries, according to the World Bank Financial Development Index (FDI). The index measures the depth, access, efficiency, and stability of financial systems. Each of these characteristics is captured both for financial institutions and financial markets.¹⁰ Figure 1 below provides a visual representation of the levels of financial development across SADC member states. These levels are compared to the broader African context and the average among low-income countries worldwide.

This upward trajectory, however, is not uniform across the region. While certain middle-income countries (Mauritius, Namibia, Seychelles and South Africa) rank highly in financial development, progress has been lower for other countries in the region. Notably, in some cases (Comoros, DRC, Madagascar, Malawi and Tanzania), the level of financial development was lower than the African and low-income countries' averages illustrated in the highlighted section.

¹⁰ World Bank Global Financial Development Index

Figure 1: Southern Africa Comparison: Financial Development Index, 2011-2021



Source: Global Financial Development Index

3.2.2 Trends In The Microfinance Landscape

Over the last decade, the microfinance sector has undergone several changes, both with respect to the type of providers in the market, their channel and lending technology and the products and customers they serve.

Mobile Money and Financial Inclusion: the rapid growth of mobile money services mainly provided by a Mobile Network Operator (MNO) have become the main “wallet” or bank account for many low-income customers who might previously have used a deposit or transacting account from an MFI. Many of these mobile money providers have also entered the credit market, making loans available to these same customers, often in real-time. A large proportion of the increase in financial inclusion over the last ten years has resulted from the growth in the use and adoption of mobile money. For instance, in Botswana, which has a population of 1.8 million, there are now 1.7 million mobile money accounts. MFIs are increasingly partnering with mobile money providers while these dynamic digital entities are even replacing some.¹¹ In response to this evolving landscape, many MFIs are streamlining their operations with online banking platforms and launching digital wallets. For example, in April 2018, Orange Money established a strategic partnership with the MFI PAMF2 (Première Agence de Microfinance, a subsidiary of the MFI Agha Khan) to offer savings and credit directly from the mobile phone via Orange Money in Madagascar.¹²

Digital lending: Digital lending platforms have rapidly gained traction in many markets. For example, in South Africa, Lulalend, an online lending platform established in 2014, has been making considerable strides.

Product diversification: Some SADC MFIs have diversified their product offerings to meet the diverse financial needs of their clients. FINCA, with its presence in various SADC countries, offers a range of financial services that go beyond traditional microcredit. In Zambia, for instance, they provide micro-savings accounts, remittance services, and microinsurance.¹³ Microcred, in addition to microcredit, offers savings accounts and microinsurance products to address the financial needs of their clients. Their product range encompasses individual and group loans, savings options, and insurance coverage.¹⁴

Climate-resilient financing: Many SADC countries face climate-related challenges, such as droughts and floods, that threaten the livelihoods of agricultural and rural communities. In response to these pressing concerns, MFIs in the region have embarked on innovative efforts to offer climate-resilient financing solutions. Vision Fund introduced the ARDIS (African Rainfall Index Insurance for Development and Sustainability) program in Malawi and Zambia in 2018. This pioneering initiative serves as the region's first climate insurance program, designed to protect MFIs against catastrophic hazards. Additionally, it enables funding of recovery lending programmes post-disaster to help clients and their families resume their livelihoods.¹⁵

¹¹ University of Oxford, 2019

¹² Orange Money Facts and Figures, 2019

¹³ FINCA Zambia

¹⁴ Women Connect

¹⁵ VisionFund History

Rural distribution: Whereas many have always worked with rural communities, some have changed their strategy to establish agent banking and mobile/digital solutions. The agent banking model, empowering local individuals or businesses to act as intermediaries, enables rural residents to conduct financial transactions more conveniently. In 2016, Letshego, the inclusive finance-focused group with consumer, micro lending, and deposit-taking subsidiaries across Southern, East and West Africa, launched an innovative 'LetsGo BlueBox' agency banking model in Mozambique. This model was designed to strengthen the provision of inclusive financial services in rural areas and to those in segments (formal, informal, and Micro and Small Entrepreneurs) that are either ignored or under-served by mainstream banks and other existing financial service providers.¹⁶

¹⁶ *Agency Banking and Rebrand, 2016*

Focus on women's customer base: Many MFIs in the region continue to place women at the heart of their business model. Many of the earliest MFIs relied on women's group guarantees to overcome the lack of collateral and missing financial market infrastructure. In 2014, about 60 per cent of MFI borrowers were women in Sub-Saharan Africa, and this share is almost twice as large as women's share of formal bank accounts. Studies also find that microcredits by women have a stronger positive economic impact than those by men.¹⁷ Women's Finance House Botswana is a deposit-taking MFI that provides financial services and the promotion of low-income active women, particularly those who do not have access to the services of conventional financial institutions by providing access to micro-loans and other business support services.¹⁸

Partnerships with Development Organizations: Collaboration with development organisations, NGOs, and international agencies continues to play an important role. These partnerships help MFIs access funding, technical expertise, and training to expand their outreach and improve the quality of their financial services. In July 2023, IFC announced a new partnership with the Baobab Group, one of the first MFIs to implement IFC's Microfinance Initiative in Africa in 2005. The partnership will further support the provision of financial services to unserved and underserved entrepreneurs, especially micro and small enterprises and women-owned businesses in Burkina Faso, Côte d'Ivoire, DRC, Madagascar, Mali, and Senegal.¹⁹

3.2.3 Growth Constraints In The Microfinance Landscape

The microfinance landscape faces several growth constraints driven by several economic, regulatory, and social factors. These challenges collectively impede the sector's ability to fully realise its potential in fostering financial inclusion.

Limited access to funding: MFIs often grapple with restricted access to funding sources. Investors perceive microfinance as high-risk due to the vulnerable nature of the client base, coupled with the relatively small loan sizes. Consequently, MFIs face challenges in accessing capital at favourable terms, limiting their ability to scale and reach a broader client base. An interview revealed that MFIs in Zambia have historically faced challenges in accessing financing from mainstream banks. The perceived risk associated with lending to low-income clients, coupled with regulatory constraints, has led to limited collaboration between banks and MFIs. Additionally, the absence of well-developed capital markets in the SADC member states poses a significant obstacle for MFIs seeking alternative funding sources.

Economic volatility: Many SADC countries experience economic volatility, including fluctuating inflation rates and currency depreciation. Such uncertainties pose risks to the financial stability of MFIs and affect their ability to provide affordable and sustainable services. For example, Zimbabwe has faced severe economic challenges, including hyperinflation and currency depreciation. Such conditions pose a significant threat to the stability of MFIs, affecting the real value of loans and the ability of borrowers to repay.

Limited financial literacy: Low levels of financial literacy among potential clients can be a significant impediment. Lack of understanding about financial products and services may hinder the demand for microfinance, preventing its broader adoption. Several interviews revealed that many customers may not fully comprehend the range of financial products offered by MFIs. This lack of awareness might result in individuals choosing financial products that do not align with their needs or failing to take advantage of services that could benefit them.

Insufficient infrastructure: Inadequate financial infrastructure, including the absence of robust payment systems and credit reporting mechanisms, can impede the growth of microfinance. A lack of technological advancements may limit the efficiency of operations. An interview revealed that, in parts of Namibia, the lack of reliable internet connectivity and electricity infrastructure can impede the adoption of digital financial services. MFIs aiming to leverage technology for operations and outreach may face difficulties in areas where the digital infrastructure is underdeveloped.

Liquidity constraints: Limited access to short-term funding sources and the absence of well-developed money markets can hinder their ability to meet the diverse and often unpredictable funding needs of their operations. This liquidity shortfall can lead to difficulties in maintaining a balance between financial sustainability and serving the needs of their customers.

¹⁷ International Monetary Fund, 2016

¹⁸ Women's Finance House Botswana

¹⁹ Baobab Group website

3.3. Composition Of The Microfinance Industry

In preparing this report, comprehensive desktop research was conducted to gather information on the overall MFI industry. Additionally, all regulators and associations were approached to provide data on the sector. The table below presents the data available at an institutional level across each country. Despite the endeavours to obtain comprehensive data, there are numerous gaps in the availability of data, rendering it nearly impossible to conduct a conclusive trend analysis at a regional level, as shown by the blanks and light orange bars in the table.

Table 3: Institutional Split Of Microfinance Activities In SADC Countries

Country	Institution	Regulator	Number of institutions		Members/borrowers		Assets (US\$ Mill)		Deposits (US\$ Mill)		Loans disbursed (US\$ Mill)	
			2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22
Angola	Deposit-taking MFI											
	Credit-only MFI	Banco Nacional De Angola (BNA)		20		21,625		46				19
	Co-operatives	Banco Nacional De Angola (BNA)		1				0.4		0.3		0.3
Botswana	Deposit-taking MFI	Bank of Botswana	1	1	4,244	11,980			0.2	0.3	0.3	0.2
	Credit-only MFI	NBFIRA	73	246		136,503	413	556			339	406
	Co-operatives	Dept of Co-operatives Development ²⁰		315		200,000						
Comoros	Deposit-taking MFI	Central Bank of Comoros	3	4		27,075			68	162	71	117
	Credit-only MFI											
	Co-operatives											
DRC	Deposit-taking MFI	BCC	6	11		1,189,900		35				11
	Credit-only MFI	BCC	17	9		14,326		2				1
	Co-operatives	BCC	119	82	839,942	894,633	141	89				33
Eswatini	Deposit-taking MFI											
	Credit-only MFI	FSRA	3	119				44				35
	Co-operatives	FSRA	67	54			72	29		21	64	21

²⁰ The Department for Cooperatives Development (DCD) is under the Ministry of Investment, Trade and Industry Botswana

Country	Institution	Regulator	Number of institutions		Members/borrowers		Assets (US\$ Mill)		Deposits (US\$ Mill)		Loans disbursed (US\$ Mill)	
			2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22
Lesotho	Deposit-taking MFI	Central Bank of Lesotho										
	Credit-only MFI	Central Bank of Lesotho	118	141			42	62			39	57
	Co-operatives	Ministry of Cooperatives		99		9,092						
Madagascar	Deposit-taking MFI	BCM	31	11			122	203	82	122	109	107
	Credit-only MFI	BCM										
	Co-operatives	BCM										
Malawi	Deposit-taking MFI	RBM		5		189,081		31		6		21
	Credit-only MFI	RBM	9	11	854,172	267,834	27	56			13	42
	Co-operatives	RBM	45	37	98,871	170,165	10	50	9	31	6	38
Mauritius	Deposit-taking MFI	Bank of Mauritius	8	6				1,519		940		1,221
	Credit-only MFI											
	Co-operatives											
Mozambique	Deposit-taking MFI	Bank of Mozambique		12								
	Credit-only MFI											
	Co-operatives	Bank of Mozambique		4								
Namibia	Deposit-taking MFI	Bank of Namibia	1	1	46,225	52,400	36	325		28	32	250
	Credit-only MFI	NAMFISA		416	179,003	244,697					36	39
	Co-operatives	Ministry of Agriculture and Forestry		146		11,988						
Seychelles	Deposit-taking MFI											
	Credit-only MFI											
	Co-operatives	Central Bank of Seychelles	1	1	13,069	17,607		36		32		8
South Africa	Deposit-taking MFI	SARB										
	Credit-only MFI	NCR										
	Co-operatives	SARB/NCR	35	22	38,084	29,547	22	30	20	25	14	19

Country	Institution	Regulator	Number of institutions		Members/borrowers		Assets (US\$ Mill)		Deposits (US\$ Mill)		Loans disbursed (US\$ Mill)	
			2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22
Tanzania	Deposit-taking MFI	Bank of Tanzania		3				74				250
	Credit-only MFI	Bank of Tanzania		1352								268
	Co-operatives	Bank of Tanzania		692								
Zimbabwe	Deposit-taking MFI	Reserve Bank of Zimbabwe		8				91		19		22
	Credit-only MFI	Reserve Bank of Zimbabwe		198		284,928		159				121
	Co-operatives	Ministry of SME Development										

Light orange bars: Not applicable²¹

Blank: No information or data exists

As noted previously Zambia adopts a different reporting definition and so is captured separately in the table below.

Table 4: Institutional Split Of Microfinance Activities In Zambia

Country	Institution	Regulator	Number of institutions		Members/borrowers		Assets (US\$ Mill)		Deposits (US\$ Mill)		Loans disbursed (US\$ Mill)	
			2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22	2010-13	2018-22
Zambia	Consumer lending MFIs	Bank of Zambia		28		479,444	91.2	469		59	72.6	358
	Enterprise lending MFIs	Bank of Zambia		9		84,721	21	82	4	18	16	59

²¹ The shaded areas indicate data for institutions that do not exist in the country, rendering them inapplicable. Conversely, the empty boxes signify data for existing institutions, though information on them cannot be found

Despite the endeavours to obtain comprehensive data, there are numerous gaps in the availability of data, rendering it nearly impossible to conduct a trend analysis at a regional level. In many instances, information is either not collected by the regulator, is collected but not disclosed to the public, or is simply inaccessible. Regrettably, the situation from the 2011 report has not improved. This ongoing deficiency in data availability remains a pressing concern, posing significant challenges to efforts to analyse the industry's trends comprehensively. Nevertheless, despite these limitations, some insights can be obtained from the limited data available, as well as from the interviews that were conducted with stakeholders in compiling this report.

3.3.1 Deposit-Taking MFIs

The ability to establish deposit-taking MFIs in the SADC region has seen remarkable growth. Out of the 16 SADC Member States, 11 extend deposit-taking licenses to MFIs, a notable increase from 6 countries in 2011. These institutions have taken various structural forms, including microfinance banks and non-bank financial institutions. For instance, in 2013, FINCA became the first MFI in Tanzania to obtain a license from the Bank of Tanzania to transition into a deposit-taking entity. Consequently, FINCA was granted the authority to accept deposits and expand its operations to provide a range of banking services while maintaining its status as an MFI.²²

Even in those SADC countries that do permit deposit-taking by MFIs, the number of such institutions remains quite limited. For example, Botswana and Namibia each host only one deposit-taking MFI. Furthermore, some countries extend deposit-taking licenses, yet no institutions have been established under this framework. For example, the legal and regulatory environment in Lesotho further provides for both deposit-taking MFIs as well as credit-only MFIs. However, no deposit-taking MFIs were operating in Lesotho as of 2022. Some of our interviewees highlighted concerns regarding stringent capital and other requirements. In many jurisdictions, deposit-taking institutions were obligated to meet requirements like those imposed on banks.

Nonetheless, it is worth noting that some countries, such as DRC, Comoros and Mozambique, stand out with many deposit-taking MFIs compared to their regional counterparts. As of 2020, deposit-taking MFIs in Comoros serve approximately three out of every ten individuals in the country. In terms of volume, the largest deposit-taking MFI, Union des Meck, extended its services to nearly 55,000 clients, representing more than 10 per cent of the adult population. Furthermore, it manages a substantial 30 per cent share of the outstanding loans in Comoros. It was the second-largest deposit-taker and largest loan provider, reflecting its reach throughout the three islands of the Union.

3.2.2 Credit-Only MFIs

Credit-only MFIs exhibit a comparatively larger presence in the number of institutions. It is important to acknowledge that in certain SADC countries, non-deposit-taking MFIs do not exist, including Comoros, are described as credit-only institutions (Mauritius and Seychelles) and are not reported separately to other types of credit-only institutions. In specific countries such as Botswana, Eswatini and Lesotho, the number of these institutions has experienced substantial growth since 2011. According to insights from an interview with a regulator from Eswatini, this growth trend is particularly steep, driven by the regulator's active encouragement for unlicensed money lenders to become registered.

In many SADC countries, the scale of the credit-only MFI industry remains relatively modest. In Angola, the Democratic Republic of Congo (DRC), and Eswatini, the combined total assets of the sector amount to less than US\$50 million. In contrast, other countries boast more substantial industries, with total assets nearing half a billion dollars, exemplified by Botswana and Zimbabwe. The average size of institutions differs dramatically, as illustrated in Table 5 below. This is estimated by dividing the total balance sheet of the sector by the number of institutions. By this measure, Malawi's credit-only MFIs are larger in terms of the average institution size, with an approximate value of US\$5 million. Angola and Botswana follow with an average of about US\$2 million, while countries like the DRC, Eswatini, and Lesotho have much smaller institutions, averaging around US\$0.3 million.

²² FINCA Microfinance Bank Tanzania

Table 5: Average Size Of Credit-only MFIs In SADC Member States (Based On Available Data)

		Assets (US\$ Mill)	Number of institutions	Average size of institutions (US\$ Mill)
Country	Institutions	2018-22	2018-22	2018-22
Angola	Credit-only MFI	46	20	2.3
Botswana	Credit-only MFI	556	246	2.3
DRC	Credit-only MFI	2	9	0.2
Eswatini	Credit-only MFI	44	119	0.4
Lesotho	Credit-only MFI	62	141	0.4
Malawi	Credit-only MFI	56	11	5.1
Zimbabwe	Credit-only MFI	159	198	0.8

3.2.3 Cooperatives / SACCOs

SACCOs or credit unions are member-based organisations and can be considered as the predominant type of MFI in the SADC region due to their large number of members. These institutions are vital in mobilising savings and extending credit to their members, emphasising rural and underserved areas. However, there is a significant challenge in understanding the market due to a need for comprehensive data. In most countries, regulatory authorities do not engage in the collection of performance data for SACCOs. A limited number of cooperatives across the 16 SADC Member States report their activities to the World Council of Credit Unions (WOCCU).^{23 24} There is no data on cooperatives operating in Comoros and Mauritius.

Despite the constraints of limited data availability, certain insights regarding the industry emerge. Notably, Tanzania and Botswana stand out compared to other jurisdictions. They boast extensive networks of financial cooperatives, with 692 and 315 cooperatives, respectively. Tanzania holds a prominent position as a financial cooperative market in the SADC region. Nonetheless, despite the growth and diversity, SACCOs constitute a fractional segment within the broader financial ecosystem. In countries where data on the number of members is available, calculations reveal that the number of members comprises less than 1% of the total population in many of the states. However, Seychelles and Botswana stand out with values of 18% and 8%, respectively. In Seychelles, insights from the regulator reveal a unique scenario—a solitary credit union in the country, with the remainder of the financial landscape dominated by banks, thus concentrating the membership within this singular institution. Additionally, an interesting trend emerges when examining the data from the countries reported between 2010 and 2013, revealing a decline in the number of cooperatives as of 2022. This trend is evident in DRC, Eswatini, Malawi and South Africa.

²³ WOCCU Statistical Reports

²⁴ Even in the countries that have some cooperative that report to WOCCU, there are some that had missing information on these institutions

4. Regulatory Frameworks

This report section provides an overview of the microfinance regulatory landscape within the SADC region, drawing on the latest available information. The analysis covers a range of regulatory dimensions, with a particular focus on both prudential and conduct aspects across member states. By addressing both prudential and conduct aspects, this overview provides a holistic understanding of how regulatory frameworks are structured and enforced across various SADC member states.

Since 2011, SADC governments have actively engaged in the development of microfinance policies and the refinement of regulatory frameworks. This commitment is driven by a recognition of the role that microfinance can play in addressing financial access issues and alleviating poverty. Furthermore, microfinance is viewed as a powerful tool for poverty reduction, providing individuals and communities with access to credit, savings, and insurance. The development of regulatory frameworks also enhances stability in the financial sector, attracting investments and ensuring MFIs adhere to sound prudential and market conduct principles.

Despite the increased presence of MFI-specific regulations, the approach to regulating MFIs in the SADC region remains diverse. As of 2023, most SADC member states have enacted microfinance legislation or are developing suitable frameworks. Notable exceptions include Comoros and Seychelles have yet to establish specific regulations for MFIs. Some Member States have opted for institutionally focused regulatory frameworks tailored explicitly for MFIs. For instance, Tanzania enacted the Microfinance Act in 2018 to cater to all tiers of MFIs, ranging from deposit-taking MFIs to community finance groups. In contrast, others have incorporated these institutions within broader financial sector laws. Malawi, for instance, has promulgated its new banking law of 2013, adopting a unified regulatory framework for all financial institutions as opposed to the original banking law of 2004, which regulated MFIs and banks differently.²⁵ This diversity in regulatory approaches can be attributed to various factors, including the unique economic contexts of each country, the historical development of their financial sectors, and specific political considerations at the regional level.

Regulations enacted within SADC countries feature diverse definitions and coverage of MFIs. Thirteen out of the sixteen Member States with specific MFI regulations define these institutions based on their functions, services, and products, classifying MFIs into three broad categories: deposit-taking, credit-only, and cooperatives. However, Comoros has chosen to define MFIs as mutual establishments. Mauritius defines MFIs as credit finance businesses that are non-bank deposit-taking institutions. Seychelles defines its credit union as a financial cooperative but does not operate fully as a cooperative it offers banking services. At the same time, only 3 countries have recognised digital MFIs in their regulations.

The primary regulator of MFIs in most SADC countries is the central bank. Twelve out of the sixteen Member States have designated the central bank as the supervisory authority for all types of MFIs. Conversely, three member states created dedicated regulatory bodies to oversee MFIs. In Botswana, microfinance legislation, approved in 2012, dictates that MFIs will be regulated by the Nonbank Financial Institutions Regulatory Authority (NBFIRA). In Eswatini, a separate regulator, the Financial Services Regulatory Authority (FSRA) was established to regulate and supervise NBF providers. In Namibia, credit-only institutions are regulated by the Namibia Financial Institutions Supervisory Authority (NAMFISA), but plans are to regulate all deposit-taking institutions under the Bank of Namibia (BON). The choice to entrust central banks with the regulatory role is driven by several factors, including their accumulated experience, existing regulatory infrastructure, and the imperative to ensure financial stability within the region. Additionally, central bank oversight aligns with the institutions' roles in managing monetary policy and currency.

The regulatory framework varies in its approach to addressing prudential and conduct aspects. Most member states have chosen comprehensive regulations encompassing prudential and conduct components. Zimbabwe's Microfinance act of 2013, for example, covers both prudential aspects, such as financial soundness, and non-prudential requirements, such as consumer protection and ethical practices. Conversely, others have opted for a more specialised approach, emphasising either prudential or conduct aspects. Specific regulations primarily focus on one aspect, prioritising either prudential concerns or conduct-related matters. In South Africa, a distinctive approach has been taken, with the conduct regulation of MFIs under the purview of a dedicated conduct regulator.

²⁵ All financial institutions are required to respect the same norms (e.g. prudential ratios, rules for the distribution of risk, etc.), except as relates to the minimum required level of capital and internal control mechanisms

4.1. State Of Prudential Microfinance Regulation

As of 2023, prudential regulations for MFIs in the SADC region exhibit diverse approaches that align with each member state's economic and institutional context. These regulatory variations reflect varying stages of development and sector priorities. Some nations adopt comprehensive prudential regulations covering all MFI types, with a strong focus on broadening access to financial services, particularly in early-stage microfinance sectors such as Madagascar and Zambia. In contrast, more established MFI sectors within the SADC region emphasise stability and risk mitigation and often concentrate regulatory efforts on larger, complex institutions such as Namibia and Zimbabwe. While this diversity of regulatory strategies effectively addresses the varying developmental stages and sector priorities of SADC member states, it does introduce complexities in the harmonisation and standardisation of prudential regulations across the entire region.

Within the SADC region, prudential regulations governing MFIs exhibit differences in capital adequacy requirements, asset quality standards, risk management practices, and liquidity provisions. The economic context and the maturity of the microfinance sector in each member state significantly influence these differences. In well-established microfinance sectors, prudential regulations often include comprehensive provisions such as stress testing, internal controls, and sophisticated risk mitigation mechanisms. Conversely, in nascent microfinance sectors, regulations tend to prioritise the establishment of minimum capital requirements to ensure financial stability. One key indicator of the differences lies in the different approach to capital requirements for deposit-taking institutions. For instance, in Malawi, which boasts a well-established MFI regulatory environment, capital requirements can be as modest as US\$200,000. In contrast, the DRC imposes significantly higher capital requirements, reaching as high as US\$30 million.

Regulators have also responded to the market by adjusting regulations. In the case of Angola, it had one of the higher minimum capital requirements, which acted as a barrier to entry for new entrants, especially where these were smaller startup institutions. In 2023, the National Bank of Angola lowered the minimum capital requirements for establishing microfinance companies from \$30,000 to US\$6,000 and for credit cooperatives from US\$30,000 to US\$1,200.²⁶ According to the BNA, the initiative aimed to boost microfinance by facilitating the emergence of more institutions. The only country that does not have a minimum capital requirement is Madagascar.

Deposit-taking MFIs operating within the SADC region are generally subject to prudential regulations that aim to protect depositors' funds. While some Member States have adopted precise regulatory frameworks designed explicitly for deposit-taking MFIs, others have included these entities within the broader financial sector laws and regulations. For instance, in Tanzania, deposit-taking MFIs are classified as Tier 1 microfinance service providers (separate from Tier I banks) and are overseen by the Bank of Tanzania under the Banking and Financial Institutions Act, along with commercial banks.²⁷ A similar regulatory approach is observed in Lesotho, where the Central Bank oversees deposit-taking institutions in accordance with the Financial Institutions (Credit-only and Deposit-taking Microfinance Institutions) Regulations of 2014. However, there are still no operational deposit-taking MFIs in the country. In an interview with the regulatory authority, they indicated that this absence of deposit-taking MFIs might be linked to the success of traditional banks and credit-only MFIs in meeting the market demand. These regulations encompass stringent capital adequacy requirements, liquidity management guidelines, and other protective measures. The challenge lies in implementing and effectively monitoring these regulations across diverse Member States, especially when balancing the protection of depositors' funds with promotion.

Credit-only MFIs, primarily engaged in lending, are often subject to prudential regulations that focus on maintaining loan portfolio quality and addressing non-performing loans. In Lesotho, Tier 2 credit-only MFIs are required to submit credit risk reports on a quarterly basis to the Central Bank of Lesotho. These reports encompass critical information such as non-performing loans, bad debts written off, loans recovered, and loans that have been restructured.²⁸ Two interviews with regulators highlighted that member states should reassess their reasoning for 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 regulations for SACCOs in the SADC region are centred on fostering stability and sustainability through governance, transparency, and accountability. These regulations, however, must adapt to the diverse scale and complexity of cooperatives, which can pose challenges, especially for smaller entities with limited resources to implement advanced risk management systems. Since the inception of the regulation in Malawi in 2010, the supervision of financial cooperatives fell under the purview of the Malawi Union of Savings and Credit Cooperatives (MUSCCO). Small financial cooperatives may fail to meet minimum capital requirements for licensing under the law. Encouraging mergers with other SACCOs can be a viable

²⁶ Ver Angola, 2023

²⁷ The Microfinance Act 2019

²⁸ Credit only and deposit taking Microfinance Regulations, 2018

solution, as it helps these smaller cooperatives gain economies of scale. Notably, in Malawi, 16 SACCOs have undergone merger processes to form eight larger SACCOs, ultimately reducing the number of SACCOs supervised by the regulator from 46 to less than 40 since the law's enactment.²⁹ Conversely, larger cooperatives may necessitate more stringent regulations to mitigate potential systemic risks to the broader financial system. In Lesotho, the 2012 Financial Institutions Act now mandates the supervision of substantial financial cooperatives by the Banking Supervision Department of the Central Bank of Lesotho (CBL). However, it's worth noting that Boliba Savings and Credit, the largest financial cooperative with over 65,000 members, has yet to complete its licensing process and currently operates without supervision from either the CBL or the Ministry of Small Business, Cooperatives and Marketing (MoSBCM). While Boliba was recapitalised recently, and a potential bailout could pose some moderate fiscal risk, there is no imminent systemic risk to the financial system.³⁰ Interviews with regulators highlighted the importance of prudently regulating the larger SACCOS more effectively and suggested that there may be large SACCOS operating without adequate regulation.

The emergence of digital financial service providers is fundamentally reshaping the prudential regulatory landscape in the SADC region. Notably, Namibia has embraced this evolution by introducing regulations that facilitate online banking and partnerships with MNOs. Digital lenders operating in Namibia are formally recognised and subject to supervision. Additionally, in Tanzania, digital microfinance services are provided for in the Microfinance Act supplement.³¹ Conversations with regulators from various countries highlighted the pivotal role of digital providers and emphasised the need to introduce specialised regulatory frameworks tailored to address specific aspects such as data security, capital adequacy, and risk management within the prudential context. However, these discussions revealed that many regulators have not established specific regulations catering to digital credit within the microfinance landscape. Nevertheless, the emerging trend is acknowledged, and existing MFIs are exploring partnerships with MNOs to offer digital financial products. Concerns related to consumer protection and market conduct are being addressed, and there is a growing recognition of the need for a regulatory framework. In Malawi, a government-backed project supported by the World Bank has been initiated to explore digital solutions for financial services. This project includes the introduction of a shared ICT platform aimed at assisting MFIs that lack their own systems. While challenges may arise during the initial stages, the project holds great promise for the future. In Tanzania, ongoing efforts are to review and update regulations to exercise supervisory oversight in digital financial services. Zambia, on the other hand, governs these digital activities under the Payment Systems Act, specifically designed to regulate Digital Financial Services (DFS) activities, ensuring compliance with relevant regulations.

Some central banks have set limits on the share of an MFI portfolio that can be unsecured. This is not normally a restriction placed on microfinance businesses which typically rely on group lending methodologies. Angola has mandated unsecured lending limits at 15% of equity. These limits should be reviewed as it is likely to limit the amount of lending possible and can make it extremely difficult for MFIs to operate sustainably.

²⁹ COMESA, 2016

³⁰ IMF Journals

³¹ Microfinance Act Supplement, 2018

Table 6 below summarises the prudential regulatory treatment of SADC member states described above.

Table 6: Comparison Of Prudential Regulatory Treatment Across SADC Countries

	Angola	Botswana	Comoros	DRC	Eswatini	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Tanzania	Zambia	Zimbabwe
Has a standalone MFI regulation	✓	✓	✗	✓	✓ ³²	✓	✗ ³³	✓ ³⁴	✓	✓ ³⁵	✓ ³⁶	✓	✓	✓ ³⁷	✓	✓ ³⁸
Incorporates MFI regulations into broader financial institution act	✓	✓ ³⁹	✓	✓	✗	✓ ⁴⁰	✓	✗	✓	✓	✓	✗	✗	✗	✓	✗
Prudential regulation applies to deposit-taking MFIs	✓	✓	✓	✓	N/A	✓	✓	✓	✓		✓	N/A		✓	✓	✓
Prudential regulation applies to credit-only MFIs	✓	✓	N/A	✓	✗	✓	✓	✓	N/A	✗	✗	N/A	✗	✓	✓	✗
Prudential regulation applies SACCOs/cooperatives	✓	✗	N/A	✗	✗	✗	✗	✗	N/A		✗	✓	✗	✗	✓	✗
Regulation aligns with categorization ⁴¹	✓	✓	✗	✓	✓	✓	✓	✓	N/A	✓	✓	✗	✓	✓	✓ ⁴²	✓

³² Non-deposit-taking credit providers fall under the Consumer Credit Act, 2016 while the Cooperatives fall under The Cooperative Societies Act, 2003

³³ Has a bill relating to the activity and control of microfinance institutions

³⁴ Standalone Microfinance Act of 2010 and the Financial Cooperatives Act of 2011, directives on deposit-taking and non-deposit-taking institutions were submitted later

³⁵ A new credit institutions and financial companies law of came into force on March 2021

³⁶ Standalone microlending Act that caters to the microlenders while the microfinance banking institutions are under the Banking Institutions Act

³⁷ However, Tier 1 deposit-taking microfinance service institutions are regulated in accordance with the Banking and Financial Institutions Act

³⁸ National Microfinance Act of 2013

³⁹ A separate act exists for cooperatives under the Cooperative Societies Act, 2013

⁴⁰ A separate act exists for cooperatives under the Cooperative Societies Act 6 of 2000

⁴¹ The categorization splits across deposit-taking MFIs, credit-only MFIs and SACCOs

⁴² The regulation aligns with the typical categorization of MFIs, however the recorded data is split across consumer lending and enterprise lending MFIs

	Angola	Botswana	Comoros	DRC	Eswatini	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Tanzania	Zambia	Zimbabwe
Primary prudential regulator for MFIs is the central bank	✓	✓	✓	✓	N/A	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
Has a dedicated prudential regulator of MFIs	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Regulation covers minimum capital requirements	✓	✓	✓	✓	✗	✓	✗	✓	✓		✗	✓		✓	✓	✓
Regulation covers reporting requirements	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
Regulation covers digital MFIs				✗		✗		✗	✗	✗	✓	✗	✓	✓	✗	✗

✓ Adherence/likely adherence to proposed regulatory issue

✗ Divergence/likely divergence from proposed regulatory issue

N/A - Not applicable in the specific case

Blank boxes indicate that we were unable to find any conclusive data

4.2. State Of Non-Prudential Microfinance Regulation

All the member states have adopted some form of non-prudential microfinance regulation. By encompassing provisions for transparent loan terms, equitable interest rates, and mechanisms for resolving client grievances, these regulations are designed to protect consumers, by establishing ethical standards that discourage coercive debt collection tactics, promote responsible lending practices, and mitigate the risk of over-indebtedness among clients. This, in turn, promotes the long-term sustainability of MFIs by bolstering client trust and safeguarding their financial well-being.

Non-prudential regulations governing MFIs can be incorporated into a broader financial institutions act or in a standalone MFI act. Out of the total member states, six countries have developed standalone regulations. An article highlighted that a microfinance regulatory framework is highly relevant for a country with high levels of financial exclusion and increasing involvement by non-bank financial services providers. In 2018, the parliament of Tanzania enacted a Microfinance Act which sought to clarify the framework under which MFIs were governed, regulated, and operated. A lack of dedicated regulation had left the sector vulnerable to financial irregularities and the target of fraudsters and money launderers. In October 2018, for example, the former managing director of a collapsed MFI was sought by Tanzania's anti-corruption body for allegedly swindling US\$782,550. A loan officer at another institution allegedly forged documents and diverted money from the Higher Education Students Loans Board for personal use. The Microfinance Act concretised a commitment made by the Ministry of Finance and Planning and the BoT to transform the microfinance sector through better integration and regulation.⁴³

SADC member states exhibit significant variation in their legal frameworks concerning consumer protection. Some countries have established standalone Consumer Protection Acts, while others have integrated consumer protection provisions into broader financial services laws, and in many cases, a combination of both approaches has been adopted. For instance, in Zambia, despite the presence of specific provisions within the non-prudential regulations for addressing issues related to market conduct and consumer protection, the management and administration of the Consumer Protection Act falls under the purview of the Competition and Consumer Protection Commission (CCPC), governed by a memorandum of understanding between the Bank of Zambia (BoZ), CCPC, and other pertinent entities.

Non-prudential regulation within the SADC member states has undergone significant evolution, expanding its scope and intensity in recent years. Non-prudential regulations, initially designed with a focus on larger MFIs, have evolved to encompass a more comprehensive range of MFIs. This expansion reflects a growing awareness of the necessity to regulate all participants in the sector, irrespective of their size, to uphold fairness, transparency, and responsible conduct. One notable illustration of this shift can be found in Tanzania, where the Bank of Tanzania (BOT) plays a pivotal role in the oversight of all types of MFIs. The regulatory landscape in Tanzania exemplifies the growing emphasis on consumer protection and responsible lending practices. The regulations enforced by the BOT mandate a higher degree of transparency in loan terms and require comprehensive disclosure of fees and interest rates. Additionally, they prioritise the provision of accessible and easily understandable financial information. The increasing need to combat malpractices, unethical behaviour, and unfair treatment of consumers has been a driving force behind the expansion of non-prudential regulations in Tanzania. Credit-only MFIs, in particular, are increasingly subject to non-prudential regulations over prudential regulations that traditionally emphasised the financial soundness and stability of institutions.

Several countries, including Namibia and South Africa, are progressing toward establishing dedicated non-prudential regulators for their financial sectors. This transition seeks to establish a clearer demarcation between prudential and non-prudential regulatory functions. This, in turn, serves the purpose of intensifying attention on both areas, thereby mitigating the risk of either one taking precedence over the other. Notably, in South Africa, a comprehensive framework for consumer protection within the credit industry is embodied in the National Credit Act (NCA), which applies to all non-bank financial institutions, including MFIs. The NCA sets out clear requirements related to responsible lending practices, affordability assessments, and the transparent disclosure of costs and loan terms to borrowers. It also mandates the National Credit Regulator (NCR) as the entity responsible for monitoring and enforcing consumer protection measures within the credit industry. The NCR ensures that all credit providers, including MFIs, adhere to the NCA's provisions. Complementing the NCR's efforts, South Africa boasts the Financial Sector Conduct Authority (FSCA), which places a particular emphasis on market conduct, ensuring that financial institutions treat consumers fairly and transparently.

The availability of credit bureau information to support lending decisions varies widely between countries and is often insufficient. In some member states, MFIs do not participate in the credit bureaus. Interviews with regulators from countries such as Zambia and South Africa have recognised the importance of mandatory reporting. Some countries, including Zambia, Angola, Mozambique, and South Africa, have already embraced comprehensive reporting encompassing both positive and

⁴³ *Housing Finance Africa, 2019*

negative information, while Zimbabwe has expressed its intent to do the same. On the other hand, countries like Swaziland, Botswana, and Zimbabwe have primarily focused on the reporting of negative credit histories. 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).

There are also significant differences between countries in terms of non-prudential regulations. Table 7 below summarises the non-prudential regulatory treatment of SADC member states described above.

Table 7: Comparison Of Non-Prudential Regulatory Treatment Across SADC Countries

	Angola	Botswana	Comoros	DRC	Eswatini	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Tanzania	Zambia	Zimbabwe
Non-prudential regulations exist	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Incorporates non-prudential regulations into broader financial institution act	✓	✓ ⁴⁴	✓	✓	✗	✓	✓	✗ ⁴⁵	✓	✓	✓	✗	✗	✗	✓	✗
Non-prudential regulation incorporates consumer protection requirements	✓	✓	✓	✓	✓	✓		✓	✓		✓	✗	✓	✓	✓	✓
Non-prudential regulation includes governance requirements	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Non-prudential regulation includes disclosure requirements	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓
Non-prudential regulation includes punitive measures for non-compliance	✓		✓	✓	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓
Non-prudential regulation applies to deposit-taking MFIs	✓	✓	✓	✓	N/A	✓	✓	✓	✓		✓	N/A		✓	✓	✓
Non-prudential regulation applies to credit-only MFIs	✓	✓	N/A	✓	✓	✓	✓	✓	N/A	✓	✓	N/A	✓	✓	✓	✓

⁴⁴ A separate act exists for cooperatives, the Cooperative Societies Act, 2013

⁴⁵ Non-prudential regulations exist as part of the standalone Microfinance Act of 2010 and the Financial Cooperatives Act of 2011

	Angola	Botswana	Comoros	DRC	Eswatini	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Tanzania	Zambia	Zimbabwe
Non-prudential regulation applies to SACCOs/ cooperatives	✓	✓	N/A	✓	✓	✓	✓	✓	N/A	✓ ⁴⁶	✓	✓	✓	✓	✓	✓
Has a single regulator for both non-prudential and prudential aspects	✓	✓ ⁴⁷	✓	✓	N/A	✓	✓	✓	✓	✓	✓ ⁴⁸	✓		✓	✓	✓
Has a separate non-prudential regulator	✗	✓	✗	✗	✓ ⁴⁹	✗	✗	✗	✗	✗	✓	✗	✓	✗	✗	✗
Regulation includes interest rate limit provision		✓	✓	✗	✓	✓		✗	✓		✓	✗	✓	✗	✓	✓ ⁵⁰
Regulation imposes interest rate limits		✗	✓	✗		✓		✗			✓	✗	✓	✗	✓	✓
Availability of a credit bureau (or public credit registry)	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓ Adherence/likely adherence to proposed regulatory issue

✗ Divergence/likely divergence from proposed regulatory issue

N/A - Not applicable in the specific case

Blank boxes indicate that we were unable to find any conclusive data

⁴⁶ The New General Law on Cooperatives awaits the approval of legal instruments and regulations by the government to operationalize the law

⁴⁷ The single prudential and conduct regulator is the Bank of Botswana which applies to deposit-taking institutions. NBFIRA serves as the separate conduct regulator for microlenders

⁴⁸ Applies to microfinance banking institutions

⁴⁹ The FSRA is the conduct regulator for non-deposit taking credit providers and SACCOs

⁵⁰ Maximum rates of interest are provided for in the Money Lending and rates of interest Act

4.3. Role Of Regulations In Shaping Microfinance Landscape

The commitment of SADC governments to develop microfinance policies and regulatory frameworks since 2011 underscores the acknowledgement of microfinance's role in promoting financial inclusion and reducing poverty.

Despite the diverse approaches to regulation within the SADC region, most countries have converged on key regulatory principles. These principles include the necessity to define MFIs based on their functions, services, and products and to adopt regulations that encompass both prudential and conduct aspects. Additionally, they emphasize subjecting deposit-taking MFIs to prudential regulations that aim to protect depositors' funds and focus on conducting regulation for credit-only MFIs to maintain loan portfolio quality, protect customers, and address risks to financial stability.

While these regulatory principles have been developed for the MFI industry in the SADC region, there are still some challenges that need to be addressed. One challenge is the lack of harmonisation and standardisation of prudential regulations across the region. This diversity may make it more difficult for MFIs that operate in multiple countries. Interviews with the regulators highlighted that despite the existence of prudential regulations, they are not being implemented and effectively monitored across diverse member states, particularly in smaller, less developed countries with limited regulatory capacity.

5. Bridging Global Best Practices With Local Realities

This section presents a comparative analysis between international best practices in microfinance regulation, the current practices within SADC countries, and the draft SADC model laws developed by CISNA.

The CGAP Microfinance Consensus Guidelines are widely recognised and accepted as the most comprehensive and internationally embraced best practice for the microfinance industry, underpinning regulatory and supervisory approaches in a variety of global contexts. This guide was written with input from more than 25 commentators who have worked on the regulation and supervision of microfinance in every region, making it a globally inclusive resource.⁵¹

Recognising the importance of aligning with regulatory best practices and fostering harmonisation, CISNA has crafted draft model laws. These laws are intended to guide SADC countries seeking to establish or update their microfinance regulations. They aim to harmonise the licensing, regulation, and supervision of MFIS within SADC states. CISNA's efforts have led to the development of three distinct draft model laws tailored for specific segments of the microfinance landscape:

- **Microfinance institutions model law** - provides for the harmonisation of licensing, regulation and supervision of MFI that carry out deposit-taking microfinance business. A “deposit-taking microfinance business” is defined in the model law as the principal business of accepting deposits and extending credit to borrowers
- **Microlending institutions model law** - provides for the harmonisation of licensing, regulation and supervision of microlending institutions. A “microlending business” is defined in the model law as a business of providing credit only as a principal business and does not take deposits from the public
- **Co-operatives financial institutions model law** - provides for the harmonisation of licensing, regulation and supervision of co-operative financial institutions. A “co-operative financial institution” is an umbrella term for deposit-taking financial cooperatives that are owned and controlled by its members. It includes credit unions, savings and credit cooperatives, financial services cooperatives, and financial cooperatives, cooperative banks, which terms are often used interchangeably.

⁵¹ CGAP's Guiding Principles, 2012

5.3. Alignment With International Best Practices

The table below compares the alignment between the CGAP regulations, country practice across SADC and the CISNA draft laws. Areas of strong alignment are shown in green. Areas where current practice differs from the draft law and the best practice guidelines are shown in yellow.

Table 8: Alignment With CGAP Regulatory Principles

Key regulatory themes	CGAP Regulatory issues/ principles	General alignment of draft model laws	General alignment of SADC member states
Definitions and coverage	Regulatory definitions of “microfinance” and “microcredit” should be tightly framed to meet specific regulatory objectives and should not simply be drawn from general literature on microfinance	The three draft model laws have provided clear definitions of ‘microfinance’ and ‘microlending’	All of the countries have developed precise definitions for microfinance except Seychelles
	Absent extraordinary circumstances, non-depository MFIs should not be subjected to prudential regulation and supervision	According to the Microlending Institutions Model Law, non-depository MFIs are not subjected to prudential regulation	8 out of the 16 member states have implemented prudential regulations that are applicable to credit-only MFIs
Prudential regulation	Minimum capital should, in principle at least, be set high enough to ensure that the institution can cover the infrastructure, Management Information System (MIS), and start-up losses to reach a viable scale. Minimum capital should also provide incentives for adequate performance and continued operation	A deposit-taking MFI and financial cooperative shall maintain such minimum capital and reserves as may be prescribed in the domestic law. However, the model laws do not provide any guidance on how high requirements should be set to enable MFIs to reach a viable scale.	Only 11 countries include minimum capital requirements in their regulatory frameworks. Insight gathered from interviews indicates that, in 2 of these countries, the existing minimum capital requirements are considered too high. On the other hand, one of the member states is looking to increase the requirements.
	Regulation—including any proposed new regulation that provides for depository microfinance—should clearly define the types of permissible activities that a prudentially regulated institution may engage in	The Microfinance Institutions model law defines deposit-taking institutions as those in the principal business of accepting deposits and extending credit to borrowers	Most countries that provide for depository microfinance have clearly defined the types of permissible activities
	When creating new regimes for depository microfinance, regulators should take care that full-service banks and other financial institutions (not just MFIs) are enabled to provide microfinance services	Not covered in the model laws	Most countries that provide for depository microfinance have enabled other institutions such as banks to provide microfinance services

Prudential supervision	In most cases the best supervisor for depository microfinance will be the authority responsible for commercial banks	Not covered in the model laws	In 12 countries hosting depository MFIs, the central bank, overseeing commercial banks, also regulates these institutions
	Financial cooperatives—at least the larger ones—need prudential supervision by a specialized financial oversight agency that has the requisite skill, independence, resources, and powers.	The regulatory authority shall be responsible for the regulation and supervision of all co-operative financial institutions licensed under the domestic law	Only 3 countries, namely Angola, Seychelles and Zambia have established prudential regulations specifically for financial cooperatives supervised by their respective central banks
	In some cases, the best solution may be to allow formal but very small member-based deposit-takers to continue operating even though they cannot be effectively supervised	The model laws do not distinguish between large and small cooperatives. The regulatory authority shall take appropriate supervisory action against a co-operative financial institution which contravenes any of the provisions of the domestic law.	In the 3 countries that have established prudential regulations, some financial cooperatives are not effectively supervised due to limited implementation of these regulations. In the other countries, most cooperatives are not formalized and not prudentially regulated, leaving them vulnerable to financial risks. Additionally, none of the countries' regulatory frameworks distinguish between large and small cooperatives
Non Prudential Regulation	Issuance of a permit to engage in microlending should be straightforward, involving a public registry and a simple process, but not prudential regulation.	According to the microlending institutions model law, the licence of a microlending institution shall be subject to terms and conditions which shall include: specifying offered microlending services and conduct of the business at the principal office of the microlending institution specified in the licence	Within the 16 member states, only 5 exclusively subject credit-only MFIs to non-prudential regulations
	As much as possible, all providers of a given financial service should be held to the same consumer protection standards	Both the microfinance and microlending institutions model laws incorporate a detailed section titled 'Treating Customers Fairly Outcomes' which outlines a set of consumer protection outcomes. Some critical elements include fair treatment culture, appropriate financial service design, proper advice, clear and relevant information, including others	In 13 out of the 16 member states, consumer protection standards are applicable to all financial providers.

	Microfinance providers should be required to give clients clear and complete information about services offered, including their terms and costs	Ensures that consumers are given clear and relevant information, and that they are appropriately informed about all the terms and conditions relating to a financial service before, during and after point of sale	Of the 13 countries with consumer protection standard, regulatory frameworks provide for a section on communicating clear information about the terms and conditions of their products
	Interest rate caps can restrict access by making it impossible to serve small or remote borrowers. It may be politically difficult to set a cap that is high enough to cover the unavoidable costs of microlending and a profit margin high enough to attract capital to low-income financial services	Not covered in the model laws	Where data is available, 9 member states have a provision for interest rate limits in the regulatory frameworks. 6 member states still enforce interest rate limits on MFIs
	It is critical for the healthy development of microfinance to foster the development of broad and deep credit information databases that include current loan balances and negative and positive information on the past payment behaviour of poor customers, particularly in markets approaching saturation	Not covered in the model laws	Credit bureaus are present in 15 member states, but interviews reveal that the efficient tracking of customer behavior information is lacking, potentially leading to less accurate data

Green - Strong alignment: 80-100% adherence to best practices

Yellow - Moderate alignment: 50-79% adherence to best practices

Red - Below 50% adherence to best practices

6. Measuring Success: Monitoring And Support

This section covers the extent of monitoring and reporting within the microfinance sector in the SADC region. It discusses the state of monitoring, reporting requirements, and regulatory publications while highlighting the scarcity of publicly available data.

6.1. Extent Of Monitoring

In the SADC region, the monitoring of MFIs involves a combination of onsite and offsite approaches, with variations in frequency and methods across member states.

Offsite monitoring is the prevalent practice and typically relies on regular assessments of financial reports, statistical data, and other documentation submitted by MFIs to regulators. MFIs are mandated to submit statements of their financial position and performance metrics to regulators, either on a monthly, quarterly, or annual basis. The frequency and complexity of reporting requirements vary from country to country. Deposit-taking MFIs generally face more stringent and frequent reporting obligations, like those imposed on banks. For example, Zambia mandates regulated MFIs to submit detailed monthly and quarterly financial statements, while in Mozambique, deposit-taking microbanks and financial cooperatives must report monthly or quarterly comprehensive reports. Despite these regulations, in Lesotho, interviews highlighted that due to limitations in enforcement capacity, their reporting tends to be irregular and unreliable. In some cases, data pertaining to regulated credit-only institutions can be sporadic and is often deemed unreliable. This type of off-site monitoring relies on the analysis. Offsite monitoring is favoured by regulators due to its cost-effectiveness and efficiency. It allows for the continuous evaluation of financial performance without the need for physical visits to each MFI.

Onsite monitoring is less common and is typically employed under special circumstances, such as when irregularities or special concerns are identified during off-site monitoring. However, there were special cases where onsite visits were common, such as Lesotho, where onsite inspections were done annually before the Covid pandemic. An interview with the Bank of Namibia highlighted that onsite inspections are scheduled to be done on all MFIs once in 3 years. Additionally, regulators may conduct onsite visits to conduct compliance assessments, employing mystery shopping exercises to gauge adherence to regulatory standards. However, this is not common among all 16 member states due to various limitations. The Reserve Bank of Malawi mentioned that budget constraints limited the number of on-site examinations that could be undertaken in a certain period.

The oversight of MFIs within the SADC member states is uneven, with the focus of monitoring efforts tending to focus on deposit-taking institutions and large credit-only MFIs. For instance, in Seychelles, the credit union, the largest MFI in the country with a member base accounting for approximately 18% of the population, is monitored monthly by the Central Bank. On the other hand, interviews with various regulators revealed that smaller MFIs and those operating in remote areas receive less scrutiny. This bias may stem from the higher inherent risks associated with deposit-taking activities and the need for heightened prudential oversight to safeguard depositor interests.

Monitoring in the SADC region primarily concentrates on financial performance, with limited attention paid to the developmental impact of MFIs. Notably, interviews across the region reveal a general lack of data collection by regulators on the social and economic impact of MFIs, particularly in terms of their contributions to poverty alleviation, job creation, and community development. However, some regulators do collect some information on these aspects at a high level. Malawi stands out as an exception, where monthly reports do include a social component covering aspects such as outreach, complaints, and gender considerations. This divergence underscores the varied approaches to MFI oversight and the need for a more comprehensive and inclusive monitoring framework across the SADC region. For example, the Reserve Bank of Malawi requires MFIs to submit a social report that captures demographic information.

Since 2011, there are instances of regulators in the SADC region who have taken steps to enhance their monitoring frameworks. For example, in Madagascar, the National Financial Inclusion Strategy (NFIS) places a strategic emphasis on establishing an effective monitoring and evaluation system, primarily centered around maintaining a reliable and current database on financial inclusion. Madagascar has shown interest in improving monitoring systems by introducing initiatives to assess and enhance the effectiveness of their regulatory oversight. Key indicators monitored by the NFIS in Madagascar encompass the count of MFI branches and the agents of mobile money operators.

Despite these efforts, the effective monitoring of microfinance in the SADC region encounters substantial challenges. Regulatory bodies often grapple with capacity limitations hindering their ability to conduct comprehensive and frequent

monitoring activities. This constraint persists even when supervision responsibilities are delegated to external entities, as evidenced by the cases of NAMFISA in Namibia and NBFIRA in Botswana. Additionally, the quality and standardization of data reported by MFIs can vary, making it challenging for regulators to perform accurate and consistent assessments.

6.2. Extent Of Reporting

The lack of reliable data still remains an issue plaguing the microfinance industry in the SADC region. Some key contributing factors are the limited extent of monitoring, reporting by MFIs and publishing by the regulatory authority to the public, creating a substantial information gap. Transparency initiatives in SADC member states involve the publication of various reports, including annual reports, financial stability reports, supervision reports, and microfinance activity reports. Despite these efforts, the comprehensiveness of these reports is compromised by significant data gaps, hindering a thorough assessment of the microfinance sector as shown in [Table 3](#). Typically, these reports are generated bi-annually or annually, and while they are intended for public access, they are often marred by limitations, hindering stakeholders from obtaining a comprehensive understanding of microfinance performance. While some countries adhere to a consistent publication schedule, others do not disclose microfinance performance metrics at all. The irregularity in reporting frequencies poses a challenge for stakeholders seeking up-to-date and reliable information for decision-making and industry analysis. In certain instances, accessing microfinance data is subject to regulatory approval, creating an additional layer of complexity. This is exemplified in Tanzania, where approval from the regulator is required to obtain performance metrics for MFIs. This approval process introduces delays and may hinder the timely dissemination of crucial information to the relevant stakeholders.

In 2003, the ILO initiated the process aimed at developing a central SADC microfinance “data bank”. However, despite these early efforts, there is currently no evidence of the existence of such a data bank, with any momentum that may have been gathered in the past having long since dissipated - as evidenced by the gaps shown in table 3. Despite notable progress in select countries, the scarcity of published reports experienced in 2011, still characterizes the SADC microfinance landscape today.

6.3. Extent Of Support

As previously highlighted, MFIs operating in the SADC region face several constraints. MFIs typically face severe funding constraints and a need for institutional support encompassing technical assistance and expertise, capacity building initiatives to develop skills in MFI staff, and systems support. Donor organizations, governments, microfinance associations, or combinations of these stakeholders typically provide support for the sector.

6.2.1 Government Support

Government support for the microfinance sector in SADC typically involves:

- 1) **Legislative and regulatory enhancement:** Significant changes have taken place in the microfinance policy and regulatory landscape since the 2011 microfinance study. Several countries have developed financial inclusion strategies, providing a roadmap for supporting MFIs. Notably, in Eswatini, the government introduced the National Financial Inclusion Strategy (NFIS) 2017–2022. This strategy serves as a cornerstone for the government's microfinance planning in the country. Subsequently, the publication of the Microfinance Act as a standalone regulation and the establishment of the microfinance unit within the Ministry of Finance was undertaken ensuring effective implementation of the NFIS.⁵² While there is still some work to be done in better aligning with some of the regulatory principles, such as the removal of interest rate caps, notable progress has been achieved on this front.
- 2) **Capacity building initiatives:** Governments in the SADC region have provided capacity building initiatives to enhance the knowledge and expertise of MFI staff and regulatory authorities. Governments have taken proactive steps to provide training programs aimed at ensuring MFIs' compliance with regulatory requirements. For instance, in South Africa, in the event of a contravention of the Act, punitive measures are not immediately enforced. Instead, providers are engaged to offer support to the MFIs to meet compliance. The education department also actively supports these efforts, allocating officers from various departments to assist. Moreover, the presence of service providers, offering guidance in completing compliance forms, further streamlines the compliance process. Notably, in 2022, the Bank of Mozambique initiated an ongoing awareness program

⁵² [Eswatini Financial Inclusion Refresh](#)

targeting MFIs across the country, underscoring the commitment to continuous capacity building and knowledge enhancement within the sector.⁵³

6.2.2 Donor Support

In SADC there are typically four key roles that donors play.

1. **Direct support in the development of regulation:** In DRC, the German Development Cooperation was promoting the creation of a credit reporting agency. While KfW Development Bank was financing the establishment of the agency, GIZ was advising on formulating a law which will also enable and regulate the exchange of data with telecommunication and utility companies.⁵⁴
2. **Direct investment in MFIs:** The microfinance sector has attracted several institutional investments. Within Tanzania, four prominent NGO-supported MFIs, including Pride Tanzania, BRAC Tanzania, FINCA Tanzania, and Vision Fund, operate to extend financial services to underserved communities.⁵⁵ In 2007, IFC invested in and provided advisory services to two MFIs in Madagascar, AccèsBanque Madagascar, a greenfield microfinance bank and MicroCred Madagascar.⁵⁶ Furthermore, IFAD provided up to US\$ 2.0 million in senior debt financing to Futuro Microcredit Bank (mcb) S.A. ("Futuro"), a regulated, deposit-taking microfinance bank domiciled in Mozambique, to expand Futuro's microfinance portfolio, both in individual and in group lending.⁵⁷ While there is developmental support, ranging from traditional financial institutions to philanthropic organisations, a notable challenge lies in the lack of comprehensive documentation across different lenders regarding their individual investments and activities. This absence of a centralised repository detailing the activities and focus areas of different stakeholders hinders efficient collaboration and knowledge sharing within the microfinance ecosystem.
3. **Broader financial sub-sector support initiatives,** such as the Country Development and Cooperation Strategy (CDCS 2020–2025) in DRC, whereby USAID reaffirmed its commitment to guide the design of programs aimed at strengthening MFIs, including Village Saving and Loan Association (VSLAs). USAID-funded organisations have invested in establishing new and/or strengthening the capacity of existing VSLA groups in many communities. These VSLA groups have received training in financial literacy, cash management, and credit risk management which has increased their potential and promoted their sustainability.⁵⁸
4. **Support to the government:** This is 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 the 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. The model is intended to improve the soundness and efficiency, reach and depth of the non-bank financial services sector in Botswana so as to enhance its contribution to the economic growth and poverty reduction in the country. Additionally, the World Bank has provided support for a project 'Comoros Financial Inclusion Project'.⁵⁹ The Banque Centrale des Comores (BCC) officially began work on the country's first National Financial Inclusion Strategy (NFIS) as part of an AFI-led training workshop this week. The five-day capacity building event was attended by key stakeholders including local banks, MFIs, electronic money issuers, telecom operators, development partners, and consumer associations.⁶⁰

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 is to support information sharing and transparency through institutions. 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 several MFIs finding the availability of funding constrained as a result.

6.2.3 Role Of Microfinance Associations

⁵³ IMF eLibrary

⁵⁴ *Microfinance system development, 2021*

⁵⁵ *Cardiff University, 2015*

⁵⁶ *IFC, 2007*

⁵⁷ *IFAD, 2021*

⁵⁸ *Micro-Finance Institution Landscape Assessment, 2022*

⁵⁹ *Comoros for the Financial Inclusion Project*

⁶⁰ *AFI Global, 2023*

In countries where microfinance associations are established, they play a crucial role in supporting their member institutions through a multifaceted approach that encompasses various key functions:

- **Advocacy and representation:** This appears to be the primary objective of microfinance associations in the SADC region is to act as the voice of reputable MFIs within their respective jurisdictions. They advocate for the interests of MFIs, striving to ensure that existing legislation and regulations are conducive to the industry's growth. They work diligently to position the microfinance sector as a legitimate and formal part of the financial landscape, aiming to improve its public perception and mitigate any negative associations, such as being viewed as loan sharks. An interview revealed that the Zimbabwe Association for Microfinance Institutions (ZAMFI) dedicates approximately 63% of its activities to lobbying and advocacy on behalf of MFIs.
- **Training and Education:** These associations offer training and educational programs designed to enhance the knowledge and compliance of member institutions with various legal and regulatory requirements. The Angolan Association of Microfinance Institutions (AAIM) promotes the implementation of training programs to disseminate technical knowledge and procedures applicable to the various Microfinance products, as well as general knowledge, financial and social performance standards capable of projecting the microcredit market, as an instrument for promoting entrepreneurship to generate employment and income. ⁶¹
- **Lobbying:** Engaging in lobbying activities within the microfinance industry is a common practice for these associations. An interview with the Microlenders Association of Namibia (MLA) revealed an ongoing court case against the Bank of Namibia challenging the validity of the Microlending Act. MLA contends that certain sections of the Microlending Act are overly prescriptive and hinder the efficient operation of MFIs. MLA highlights the act's incompleteness, pointing to over 20 unpublished subordinate regulations. This lack of comprehensive regulation creates confusion and uncertainty among MFIs, making it difficult for them to comply with the act's provisions.

Microfinance associations highlighted other activities they are involved in such as: collaboration with Central Banks, performance monitoring, fundraising efforts, and information dissemination. The general status of associations throughout SADC is that while associations are still committed to supporting members, lack of funding, lost donor support, political involvement and significant resource constraints have resulted in reduced support activity. While most associations tend to rely heavily on member contributions, the ZAMFI still enjoys significant donor support.

⁶¹ KixiCredito

Table 9 provides a comprehensive summary of the primary sources of support identified in each country within the SADC region. It is important to highlight that the information presented in this table is derived from publicly available online sources and reflects ongoing initiatives and support structures.

Table 9: Summary Of Support Initiatives Typically Found Across SADC

	Angola	Botswana	Comoros	DRC	Eswatini	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Tanzania	Zambia	Zimbabwe
Microfinance Association	✓	✗	✗	✓	✓	✓	✓	✓	✗	✓	✓	✗	✓	✓	✓	✓
Donor support (funding and institutional capacity building)	✗	✓	✓	✓	✓	✓	✓	✓	✗	✓	✗	✗	✗	✓	✗	✗
Government support (funding and institutional capacity building)	✗	✗	✓	✗	✓	✓	✗	✓	✗	✓	✗	✗	✓	✗	✓	✗

✓ Recorded instances of support structure

✗ No recorded instances of support structure

7. Conclusions And Recommendations

There's been a notable upward trajectory in financial development, particularly in the microfinance sector in the SADC region. This growth has been fueled by rising demand for financial services, bolstered by technological advancements and increased recognition of microfinance's role in fostering financial inclusion. The sector has expanded, witnessing a surge in the number of MFIs, borrowers, and assets. Three distinct categories of MFIs have emerged: deposit-taking, credit-only, and SACCOs/Cooperatives. While deposit-taking MFIs have notably increased, non-deposit-taking MFIs remain more prevalent, with SACCOs prominent in countries like Tanzania and Botswana. Yet, despite their growth, SACCOs represent a smaller segment within the broader financial landscape.

SADC governments have actively crafted microfinance policies and refined regulatory frameworks to promote financial inclusion and alleviate poverty. The regulatory approach across member states varies, with central banks primarily regulating MFIs. Prudential regulations diverge based on economic contexts, emphasising either broadening access to services or prioritising stability and risk mitigation, leading to complexity in harmonising regulations. While non-prudential regulations to protect consumers and foster responsible lending practices have expanded, there's a need for further alignment and standardisation across the region. Efforts towards harmonisation, guided by industry-consensus guidelines and draft model laws, seek to foster consistency and best practices.

Challenges persist within the SADC microfinance landscape despite its growth. The sector faces substantial hurdles related to limited oversight and data reporting. Capacity constraints within regulatory bodies and central banks impede comprehensive oversight, leading to varied reporting frequencies and complexities across member states, resulting in significant data gaps. While efforts aim to enhance transparency through various reports, the lack of comprehensive and standardised reporting practices undermines informed decision-making. Moreover, heavy reliance on external support from governments, donors, and microfinance associations poses vulnerability, especially during global crises and funding shortages. This dependence underscores challenges in sustaining the sector's resilience and long-term stability within the region, necessitating proactive measures for sustainable growth and development.

The following recommendations aim to address these challenges and enhance the regulatory landscape of MFIs in the SADC region. By fostering the adoption of best practices, guided by industry-consensus guidelines, these measures seek to promote greater transparency, standardised reporting practices, improved oversight, and growth of the sector.

Table 10: Recommendations To Improve Regulatory Frameworks Within The SADC Region

Thematic area	Issue	Recommended solutions
Coverage of regulatory frameworks	Inadequate Regulatory Frameworks: Some countries still lack comprehensive, well-defined regulations, leading to inconsistencies and legal uncertainties	Member states should prioritize the development and implementation of comprehensive microfinance laws that clearly define the roles and responsibilities of MFIs and regulators
		Regulators should adopt a collaborative approach by engaging with key stakeholders, including MFIs, industry associations, and experts, in the regulatory development process to develop practical and effective laws
		Member states should work towards harmonizing microfinance regulations across Member States to ensure consistency and coherence in the regulatory framework
	Definitions and categorizations of MFIs across member states are not aligned to best practice	Member states should align their definition and categorizations of MFIs to best practice
	Inadequate staffing levels to effectively regulate and supervise the diverse array of market participants	Regulators should implement a differentiated regulated approach that involves focusing intensive regulatory efforts on larger MFIs that pose a higher risk to financial stability and excluding small MFIs from certain regulations, while maintaining adequate oversight to protect consumers
		Regulatory authorities should explore collaborative efforts with other relevant government agencies, industry associations, and international organizations to alleviate the strain on individual regulatory bodies e.g., Supervision has been delegated to industry associations such as Malawi Microfinance Network (MAMN) and Union of Savings and Credit Cooperatives (MUSCCO)
	Inadequate knowledge and skills in supervision of microfinance sector	Regulators and development partners should Invest in training programs and capacity-building initiatives for regulatory staff to enhance their skills in risk assessment, data analysis, and targeted supervision
		Leverage technology for automated monitoring and data analytics, allowing regulatory bodies to focus on strategic decision-making rather than routine tasks
Prudential regulatory frameworks	In certain member states, the stringent licensing and entry requirements have inadvertently led to some MFIs operating outside regulatory oversight.	Regulators should collaborate with relevant stakeholders to assess the existing licensing and entry requirements. Identify areas where flexibility can be introduced without compromising financial stability and consumer protection
		Simplify and harmonise compliance procedures to reduce the administrative burden on MFIs
	Majority of the countries have not established prudential regulations specifically for financial cooperatives	Once a cooperative becomes larger, the regulators should ensure that they are prudentially supervised by a specialised financial oversight agency that has the requisite skill, independence, resources, and powers

	Some member states have implemented prudential regulations that are applicable to credit-only MFIs	Consider removing the requirement for credit-only MFIs to be subjected to prudential regulation and supervision unless they are systemically important
	Insufficient coverage of all the components prudential regulations	Conduct a comprehensive review and assessment of existing prudential regulations to identify gaps and areas for improvement.
		Develop and implement a comprehensive regulatory framework that explicitly outlines the components of prudential regulation, encompassing all relevant aspects, including risk management, capital adequacy, asset quality, governance, and liquidity
Non-prudential regulatory frameworks	Some consumer protection frameworks in some countries do not cover all the consumer protection concerns	Consumer protection frameworks should cover responsible lending, transparent pricing, and fair treatment of borrowers to protect consumers from predatory practices, transparency and disclosure of fees and how prices are calculated.
	Some member states have a provision for interest rate limits in the regulatory frameworks while others still enforce interest rate limits on MFIs	Regulators should avoid setting interest rate limits which can restrict access by making it impossible to serve small or remote borrowers.
	KYC requirements not complied fully by the market due to lack of an identification system and limited resources by clients.	KYC requirements to be adjusted to accommodate low-income customers in the financial sector that conduct low value transactions
		Consider the use of alternatives whilst the country moves towards introducing a national ID system. Alternatives include drivers' licence; passports; letters from chiefs, heads, and leaders of the community, affidavits, just to mention a few
Monitoring and reporting	Late submission and non-reliable financial statements	Regulators should provide training and technical assistance to MFIs, especially smaller institutions, to enhance their capacity for timely and accurate financial reporting. This may involve workshops, seminars, or online resources to improve financial management and reporting practices
		Specify the consequences and penalties for late submission and the submission of non-reliable financial statements to ensure accountability
	Need to establish an information management system (IMS) that can manage the nature and the volume of constantly evolving MFI activities	Enable MFIs to get financial support for the acquisition of a better IMS in the market through national government bodies, international development organizations, NGOs or private sector partnerships
		Technical support to MFIs for the implementation of their internal monitoring mechanism as required by some country's regulations

	Difficulties in compliance to regulation by the market due to limited resources (tools for compliance and submission of financial information)	The regulator should acquire a system to be used by MFIs for processing data and hence enhancing financial reporting
	Limited data availability on MFI activities	Embracing digital tools and reporting systems can streamline data collection and reporting processes for both regulators and MFIs to significantly enhance the efficiency and accuracy of data transmission
	Limited industry data available to the public	Regulators should provide better information on the state of the industry to the market on a regular basis.
Constraints to growth of MFI industry	Sustainable business models	MFIs need to leverage new and emerging technology to improve their efficiency ratio and reduce their operating costs
	Leveraging new and emerging information on borrowers	MFIs should adopt new and alternative scoring models
	Access to capital	Many MFIs continue to struggle to access growth capital given low levels of profitability or as a result of having been established as not-for-profit entities
	Access to wholesale finance at affordable rates	In many countries the cost of borrowing for MFIs is considered to high, and constrains their operating margins
Alignment of draft model laws with international best practices	The draft model laws do not provide any guidance on how high the minimum capital requirements should be set to enable an institution to reach a viable scale	The draft model laws should have a provision to set minimum capital high enough to ensure that the institution can cover the infrastructure, Management Information System (MIS), and start-up losses to reach a viable scale
	The draft model laws do not distinguish between large and small cooperatives	The draft model laws should distinguish between large and small cooperatives when it comes to the appropriate design of regulation.
	The reporting requirements of microlending institutions and microfinance institutions are the same	Regular reporting should not be required of credit-only MFIs, if included, then the content and frequency of reports should be tailored to specific regulatory purposes and should be much lighter than prudential reporting by deposit-taking MFIs

Regulators require robust metrics to gauge the performance of the institutions that are regulated. Prudential measures, such as financial sustainability and risk management, are integral. Yet, equally critical are non-prudential metrics that focus on customer satisfaction, social impacts health, resilience, and its impact on the communities it serves.

Table 11: Recommendations On Key Performance Indicators For Deposit-Taking MFIs

KPIs	Measures	Data to Collect
Capital Adequacy	Evaluation of capital reserves and risk exposure	Total capital reserves, risk-weighted assets
Liquidity Ratio	Ratio of liquid assets to short-term liabilities	Regular assessment of liquid asset holdings
Loan-to-Deposit Ratio	Comparison of loans to total deposits	Monitoring loan growth relative to deposits
Cash Reserve Ratio (CRR)	Percentage of total deposits held in reserve	Compliance with regulatory reserve standards
Net Stable Funding Ratio (NSFR)	Assessment of funding stability	Stability of funding profile over the long term
Concentration Risk	Level of loan portfolio diversification	Loan distribution across sectors, geography
Portfolio-at-Risk (PAR)	Extent and level of risk in loan portfolio	Monthly/Quarterly amount and % of loans at risk
Number of Depositors	Size of the deposit customer base	Monthly/Quarterly total accounts
Interest Income	Revenue generated from interest on deposits	Monthly/Quarterly interest revenue
Operational Self-Sustainability	Institution's self-sustainability	Annual/Semi-annual costs and revenue
Client Outreach	Extent of reaching depositors/clients	Monthly/Quarterly client numbers
Cost per Client/Depositor	Operational cost per client/depositor	Monthly/Quarterly operational costs per client/depositor
Savings Mobilization	Amount of savings held by the institution	Monthly/Quarterly total savings
Client Retention Rate	Rate of retaining depositors/clients	Quarterly/Annual client retention
Financial Sustainability	Overall financial health and stability	Quarterly/Annual financial ratios
Operational Efficiency Ratio	Operational efficiency	Monthly/Quarterly costs to income
Social Impact	Social value generated by the institution	Periodic assessments of social initiatives, community engagement, or development projects
Customer Satisfaction	Client satisfaction with services provided	Surveys or feedback mechanisms
Customer Complaints Channels	Accessibility and efficiency of complaint resolution	Records of complaints, channels used for complaints submission
Governance Metrics	Assessment of governance structures and practices	Assessment of governance structures and practices

Table 12: Recommendations On Key Performance Indicators For Credit-Only MFIs (Non-Deposit Taking MFIs)

KPIs	Measures	Data to Collect
Credit Risk	Assessment of loan portfolio quality and defaults	Loan quality assessments, default rates
Portfolio Quality	Quality of loan portfolio and arrears management	Loan breakdown by type, arrears aging analysis
Capital Adequacy	Evaluation of capital reserves and risk exposure	Total capital reserves, risk-weighted assets
Concentration Risk	Level of loan portfolio diversification	Loan distribution across sectors, geography
Portfolio-at-Risk (PAR)	Extent and level of risk in loan portfolio	Monthly/Quarterly amount and % of loans at risk
Loan Portfolio Growth	Growth in the loan portfolio size	Quarterly/Annual total loan portfolio size
Portfolio Yield	Revenue generated from the loan portfolio	Monthly/Quarterly interest and fee income
Operational Self-Sustainability	Self-sustainability based on operations	Annual/Semi-annual costs and revenue
Client Outreach	Extent of reaching active borrowers/clients	Monthly/Quarterly active borrower numbers
Cost per Borrower	Operational cost per borrower	Monthly/Quarterly operational costs per borrower
Client Retention Rate	Rate of retaining borrowers/clients	Quarterly/Annual client retention
Operational Efficiency Ratio	Efficiency in managing operational costs	Monthly/Quarterly costs to income
Delinquency Rates	Extent of overdue loans and their value	Monthly/Quarterly number and value of overdue loans
Social Impact	Social contributions and impact beyond finances	Periodic assessments of social programs, community involvement
Customer Empowerment	Client engagement and empowerment initiatives	Feedback mechanisms, empowerment programs
Customer Complaints Channels	Accessibility and efficiency of complaint resolution	Records of complaints, channels used for complaints submission

Table 13: Recommendations on Key Performance Indicators for Cooperative Financial Institutions (Deposit-Taking)

KPIs	Measures	Data to Collect
Capital Adequacy	Evaluation of capital reserves and risk exposure	Total capital reserves, risk-weighted assets
Liquidity Ratio	Ratio of liquid assets to short-term liabilities	Regular assessment of liquid asset holdings
Loan-to-Deposit Ratio	Comparison of loans to total deposits	Monitoring loan growth relative to deposits
Cash Reserve Ratio (CRR)	Percentage of total deposits held in reserve	Compliance with regulatory reserve standards
Net Stable Funding Ratio (NSFR)	Assessment of funding stability	Stability of funding profile over the long term
Deposit Growth	Financial growth through deposits	Quarterly/Annual total deposit size
Number of Depositors	Size of the deposit customer base	Monthly/Quarterly total accounts
Interest Income	Revenue generated from interest on deposits	Monthly/Quarterly interest revenue
Operational Self-Sustainability	Institution's self-sustainability	Annual/Semi-annual costs and revenue
Client Outreach	Extent of reaching depositors/clients	Monthly/Quarterly client numbers
Cost per Client/Depositor	Operational cost per client/depositor	Monthly/Quarterly operational costs per client/depositor
Savings Mobilization	Amount of savings held by the institution	Monthly/Quarterly total savings
Client Retention Rate	Rate of retaining depositors/clients	Quarterly/Annual client retention
Financial Sustainability	Overall financial health and stability	Quarterly/Annual financial ratios
Operational Efficiency Ratio	Operational efficiency	Monthly/Quarterly costs to income
Social Impact	Institution's social value and community impact	Periodic assessments of community development, social welfare
Member Participation	Level of member engagement and involvement	Engagement metrics, member involvement
Customer Complaints Channels	Accessibility and efficiency of complaint resolution	Records of complaints, channels used for complaints submission

Appendix

Annex 1: Microfinance Regulations Across SADC

Across the SADC region, a significant number of member states have taken substantial steps to establish and enforce MFI policies and regulations. The regulatory landscape for microfinance is characterised by a variety of legislative frameworks that govern the operations of MFIs. The following table provides an overview of the countries, corresponding acts, definitions of microfinance, microfinance associations regulatory authorities and responsible for overseeing microfinance activities:

Table 14: Microfinance Regulations Across SADC

Country	Act	Definition of Microfinance	Regulatory Authority	Microfinance Associations
Angola	Law No. 14/21, of 19 May 2021, on the General Regime of Financial Institutions ⁶²	<p>The provision of financial services to individuals or legal persons, natural or legal, of an amount that does not exceed US\$180,000. These services can include loans, savings, insurance, and money transfers.</p> <p>MFIs are classified into three tiers, depending on their size, activities, and level of capitalization:</p> <ul style="list-style-type: none"> • Tier I MFIs: These are small MFIs with a maximum balance sheet of AOA 100 million • Tier II MFIs: These are medium-sized MFIs with a balance sheet of between AOA 100 million and AOA 500 million • Tier III MFIs: These are large MFIs with a balance sheet of over AOA 500 million. They are subject to the same regulatory framework as commercial banks 	National Bank of Angola - Banco Nacional de Angola (BNA)	Angolan Microfinance Association (AAIM)
Botswana	Microfinance Institutions Regulatory Authority Act (NBFIRA Act) of 2016 ⁶³	<p>Microfinance is the provision of financial services to low-income individuals and households, including microcredit, microsavings, and microinsurance.</p> <p>MFIs must have a minimum capital of P500,000</p>	Non-Bank Financial Institutions Regulatory Authority (NBFIRA)	

⁶² [Angola Law 14/21 - General Regime of Financial Institutions, 2021](#)

⁶³ [Botswana NBFIRA Act, 2016](#)

		<p>MFIs are classified into two tiers, depending on their size, activities, and level of capitalization:</p> <ul style="list-style-type: none"> • Tier I MFIs: These are small MFIs with a maximum balance sheet of P100 million. • Tier II MFIs: These are medium-sized MFIs with a balance sheet of over P100 million. They are subject to a more comprehensive regulatory framework 		
Comoros	<p>No specific MFI Act but regulated by the following laws:</p> <ul style="list-style-type: none"> • Law No. 97-023 of 23 December 1997 on the Central Bank of Comoros (BCC) • Law No. 99-009 of 7 January 1999 on Financial Institutions • Law No. 2010-006 of 25 February 2010 on Microfinance⁶⁴ 	<p>Overall definition as Non-banking financial institutions (NBFIs) that provide financial services to low-income individuals and micro-enterprises, including loans, savings, insurance, and money transfers</p> <p>Does not define MFIs using tiered approach</p>	Central Bank of Comoros (BCC)	
DRC	Law No. 11/020 of 15 September 2011, on the Regulation of Microfinance Activities ⁶⁵	<p>MFIs refers to any NBFI that provides financial services to low-income individuals and micro-enterprises, including loans, savings, insurance, and money transfers</p> <p>MFIs are classified into three tiers, depending on their size, activities, and level of capitalization:</p> <ul style="list-style-type: none"> • Tier I MFIs: These are small MFIs with a maximum balance sheet of CDF 500 million • Tier II MFIs: These are medium-sized MFIs with a balance sheet of between CDF 500 million and CDF 1 billion • Tier III MFIs: These are large MFIs with a balance sheet of over CDF 	Banque Centrale du Congo (BCC)	Association Nationale des Institutions de Microfinance en RDC (ANIMF)

⁶⁴ [Central Bank of Comoros \(BCC\) Laws](#)

⁶⁵ [Legislation - Embassy of the Democratic Republic of Congo](#)

		1 billion. They are subject to the same regulatory framework as commercial banks		
Eswatini	Microfinance Act No. 14 of 2016 ⁶⁶	<p>MFI means a non-bank financial institution that is licensed to provide microfinance services including loans, savings, insurance and money transfers</p> <p>Eswatini does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p> <ul style="list-style-type: none"> • Deposit-taking MFIs - minimum capital of E500,000 • Non-deposit-taking MFIs - minimum capital of E100,000 	Financial Services Regulatory Authority (FSRA)	
Lesotho	Microfinance Act (No. 3 of 2012) ⁶⁷	<p>MFI means a non-bank financial institution that is licensed to provide microfinance services to low-income individuals and micro-enterprises</p> <p>Lesotho does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p> <ul style="list-style-type: none"> • Deposit-taking MFIs • Non-deposit-taking MFIs 	Central Bank of Lesotho	Lesotho Microfinance Association (LEMFA)
Madagascar	<p>No specific MFI Act but regulated by the following laws:</p> <ul style="list-style-type: none"> • Law No. 2002-032 of 22 July 2002 on the Central Bank of Madagascar (BCM) • Law No. 2014-004 of 14 January 2014 on Microfinance⁶⁸ 	<p>MFI means a non-bank financial institution that is licensed to provide microfinance services to low-income individuals and micro-enterprises</p> <p>Madagascar does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p> <ul style="list-style-type: none"> • Deposit-taking MFIs • Non-deposit-taking MFIs 	Central bank of Madagascar (BCM)	Association Professionnelle des Institutions de Microfinance (APIMF)
Malawi	Microfinance Act No. 21 of 2010 ⁶⁹	<p>MFI means a non-bank financial institution that is licensed to provide microfinance services including loans, savings, insurance and money transfers</p> <p>Malawi does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p>	Reserve Bank of Malawi (RBM)	Malawi Microfinance Network (MAMN)

⁶⁶ [Financial Sector Development Implementation Plan, 2017](#)

⁶⁷ [Lesotho - Financial Institutions Act, 2012](#)

⁶⁸ [National Financial Inclusion Strategy of Madagascar, 2018-2022](#)

⁶⁹ [Malawi Microfinance Act No. 21, 2010](#)

		<ul style="list-style-type: none"> • Deposit-taking MFIs • Non-deposit-taking MFIs 		
Mauritius	Microfinance Act No. 26 of 2006 ⁷⁰	<p>MFIs as non-bank financial institutions that provide financial services to low-income individuals and micro-enterprises.</p> <p>Mauritius does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p> <ul style="list-style-type: none"> • Deposit-taking MFIs - minimum capital of MUR 1 million • Non-deposit-taking MFIs - minimum capital of MUR 500,000 	Financial Services Commission (FSC)	
Mozambique	Microfinance Law No. 57/2004 ⁷¹	<p>MFIs as non-bank financial institutions that provide financial services to low-income individuals and micro-enterprises.</p> <p>Mozambique does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p> <ul style="list-style-type: none"> • Deposit-taking MFIs • Non-deposit-taking MFIs 	Bank of Mozambique (BM)	Mozambican Association of Microfinance Operators (AMOMIF)
Namibia	Microfinance Act No. 7 of 2018 ⁷²	<p>Microfinance refers to the provision of financial services, including loans, savings, insurance and money transfers, to low-income individuals or micro-enterprises</p> <p>Namibia does not define MFIs using a tiered approach, however, distinguishes between two types of MFIs:</p> <ul style="list-style-type: none"> • Deposit-taking MFIs • Non-deposit-taking MFIs 	Namibia Financial Institutions Supervisory Authority (NAMFISA)	Microfinance Association of Namibia (MANA)
Seychelles	<p>No specific MFI Act but regulated by the following laws:</p> <ul style="list-style-type: none"> • The Financial Institutions Act, 2004 • The Microfinance Institutions (Licensing 	<p>An MFI refers to an NBFIs licensed to provide microfinance services to low-income individuals and micro-enterprises, and that has a paid-up capital of not less than SCR 100,000</p> <p>Seychelles does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p>	Central Bank of Seychelles (CBS)	

⁷⁰ [Mauritius Microfinance Act No. 26, 2006](#)

⁷¹ [Microfinance Pricing in Mozambique](#)

⁷² [Namibia Micro Lending Act 7 of 2018](#)

	and Regulation) Regulations, 2017 ⁷³	<ul style="list-style-type: none"> • Deposit-taking MFIs • Non-deposit-taking MFIs 		
South Africa	Microfinance Act of South Africa is Act No. 34 of 2003 ⁷⁴	<p>Microfinance refers to the provision of financial services to low-income individuals and micro-enterprises, including loans, savings, insurance, and money transfers</p> <p>South Africa defines MFIs using a tiered approach. There are two tiers of MFIs:</p> <ul style="list-style-type: none"> • Tier 1: Include deposit taking institutions offering general microloans and microfinance banks which are regulated as banks under the Banks Act • Tier 2: Non-bank microfinance institutions (credit-only) 	National Credit Regulator (NCR)	Microfinance South Africa (MFSA)
Tanzania	The Microfinance Act, 2018 (Act No. 12 of 2018) ⁷⁵	<p>An MFI refers to a non-bank financial institution licensed to provide microfinance services</p> <p>Tanzania defines MFIs using a tiered approach. There are four tiers of MFIs:</p> <ul style="list-style-type: none"> • Tier 1: Deposit-taking microfinance service institutions (DMFSIS) - minimum capital of TZS 100 million • Tier 2: Non-deposit taking microfinance service providers (NDMFSPs) - minimum capital of TZS 50 million • Tier 3: Savings and Credit Cooperative Societies (SACCOs) • Tier 4: Community microfinance groups 	Bank of Tanzania (BoT)	Tanzania Association of Microfinance Institutions (TAMFI)
Zambia	Microfinance Act No 4 of 2017 ⁷⁶	<p>Microfinance refers to the provision of financial services to low-income individuals and micro-enterprises, including loans, savings, insurance, and money transfers</p> <p>Zambia does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p>	Bank of Zambia (BoZ)	Association of Microfinance Institutions of Zambia (AMIZ)

⁷³ *Seychelles Country Report*

⁷⁴ *Microfinance Regulation and Supervision in South Africa*

⁷⁵ *The Microfinance Act 2018 - Tanzania*

⁷⁶ *Microfinance Classification and Provisioning Directives, 2018*

		<ul style="list-style-type: none"> • Deposit-taking MFIs • Non deposit-taking MFIs 		
Zimbabwe	Microfinance Act No. 24 of 2013 ⁷⁷	<p>Microfinance refers to the provision of financial services to low income individuals and micro-enterprises including loans, savings, insurance, and money transfers</p> <p>Zimbabwe does not define MFIs using a tiered approach, however distinguishes between two types of MFIs:</p> <ul style="list-style-type: none"> • Deposit-taking MFIs - US\$500,000 • Non-deposit-taking MFIs - US\$100,000 	Reserve Bank of Zimbabwe (RBZ)	Zimbabwe Association of Microfinance Institutions (ZAMFI)

⁷⁷ *Microfinance Act, 2013*