

Panel 3:

Transformation and Integration of MFIs



Banking Regulation: Challenge or Window of Opportunity for MFIs?

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Banking Regulation:

Relevant Aims and Principles



Relevant Aims

- ✓ **Stability and efficiency of financial systems**
- ✓ **Financial intermediation and effective competition**
- ✓ **Sustainable access to finance for broad range of clients and across regions**

Key Principles (acc. to BIS)

- ✓ **Cost efficient: for the supervisor and for the financial institutions**
- ✓ **Neutral: ensure level playing field for different financial institutions**
- ✓ **Transparent: increasing public confidence**

Banking Regulation:

Integral Part of Legal and Regulatory Framework



Legal and Regulatory Framework

Banking Regulation

Regulation
for Monetary Policy

Banking
Supervision
for Stability and
Soundness of the
Banking Sector

Formal Financial Sector

Other Relevant Laws

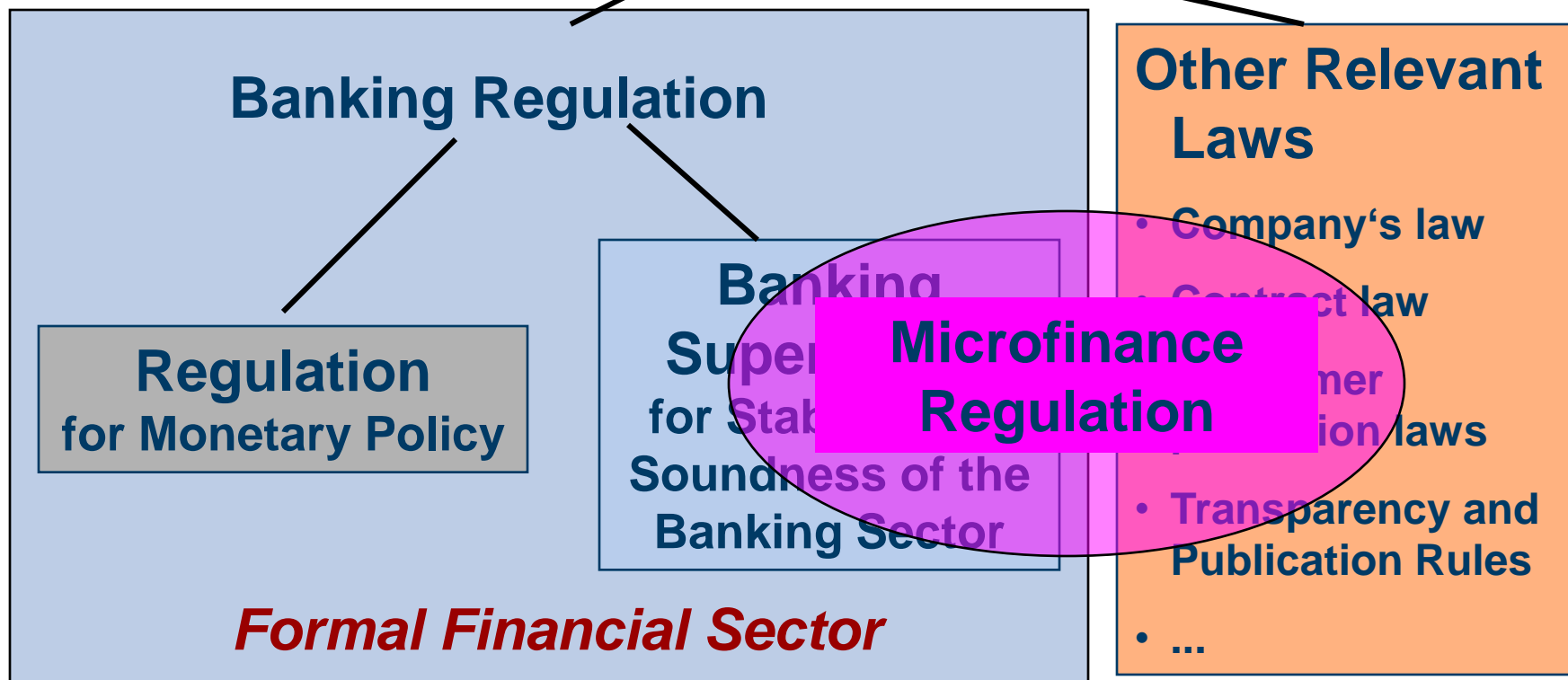
- Company's law
- Contract law
- Consumer protection laws
- Transparency and Publication Rules
- ...

Regulation of Microfinance:

What Does it Mean?



Legal and Regulatory Framework



Transforming MFIs:

Becoming a Fully Regulated Financial Institution



Advantages

- **Deposits make independant from donor funding, enable funding in local currency**
- **Full range of financial products**
- **Ability to diversify funding sources**

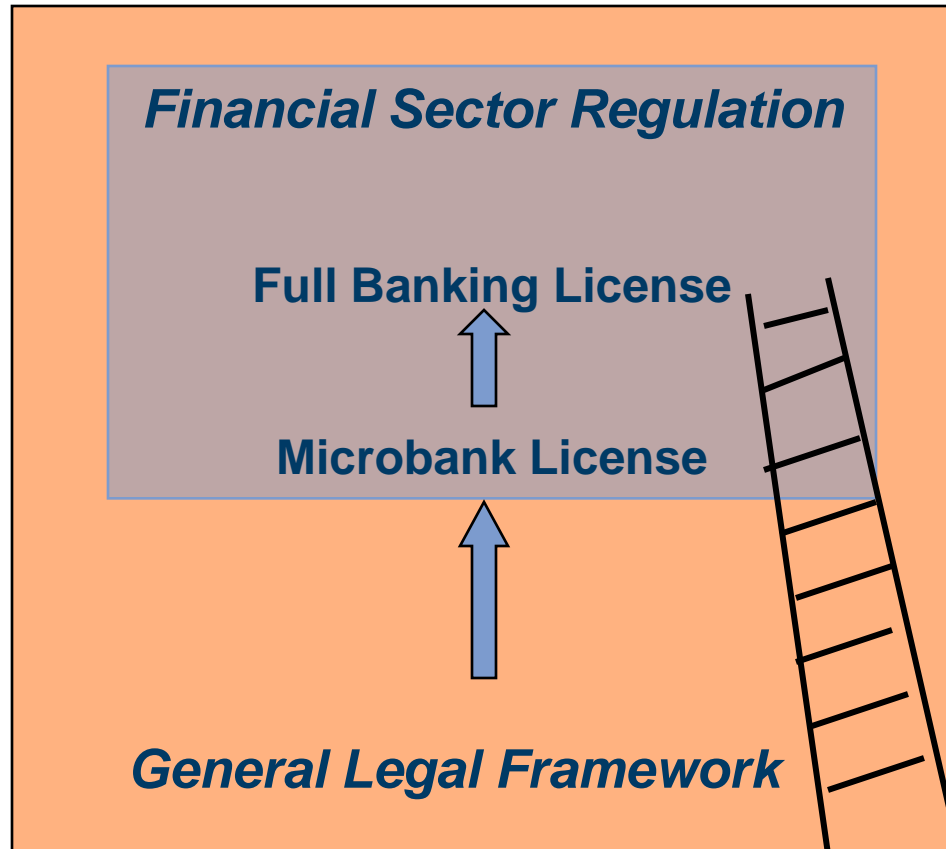


Disadvantages

- **Administrative cost of prudential reporting, e.g.**
 - Capital adequacy
- **Restrictions by monetary policy, e.g.**
 - minimum reserves
 - portfolio caps...
- **Higher minimum equity**

=> To reach their full potential, MFIs must transform in the long run!

Special Banking Supervisory Regulations for Microfinance Banks?



Regulatory Authorities can provide a „ladder“ into the Formal Financial Sector by creating a special Microfinance License!

However, a Microbank Licence can only go along with softer standards (e.g. less minimum equity) if Microbanks imply lower risks for the stability of the banking sector!

Transformation of MFIs in SEE: Opportunities...



- **Increased relevance for financial intermediation:** MFIs in the region are growing fast; an increasing number transforms into licensed MFIs and fully licensed micro-banks:
 - *integration in formal financial sectors will continue,*
 - *importance for financial intermediation will grow.*
- **Potential as role models for responsible finance:**
 - => consumer protection regulation high priority for regulators, e.g. in Romania, Serbia, Bulgaria;
 - => here, micro-banks may differentiate themselves from commercial banks, e.g.:
 - *making prices of financial services transparent and comparable,*
 - *easy to comprehend loan contracts,*
 - *responsible debt collection practices.*

Transformation of MFIs in SEE: ...and Challenges



- **Neutrality of regulation**: in some countries, regulation still discriminates against microbanks, e.g.:
 - *limits on unsecured lending,*
 - *high provisioning on unsecured loan portfolios despite good portfolio quality,*
 - *high formal requirements regarding loan documentation even for very small loans.*
 - **Cost efficiency of regulation**: despite increasing integration in the European financial markets, cooperation between supervisors in the regions still limited => *no standardised reporting of groups or networks of microbanks possible.*
- => Dialogue between regulators and MFIs to be continued, IFIs and funds like EFSE may play a role as facilitator.**

**Thank you very much for your
attention!**

