



Panel 3:

Transformation and Integration of MFIs:
Legal and Regulatory Framework for Microfinance

Is there a Need for a Special Regulatory Framework for Microfinance?

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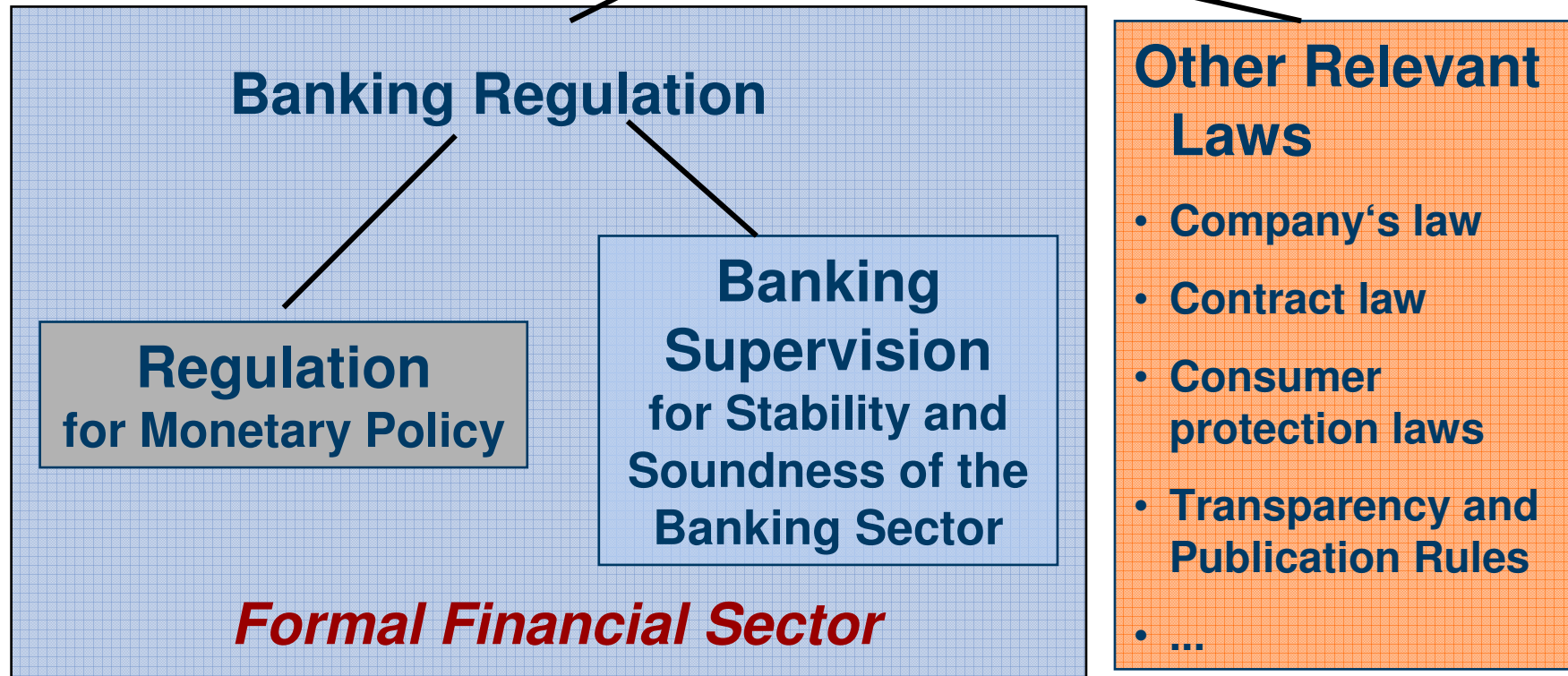
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Legal and Regulatory Framework: Different Components with Different Objectives



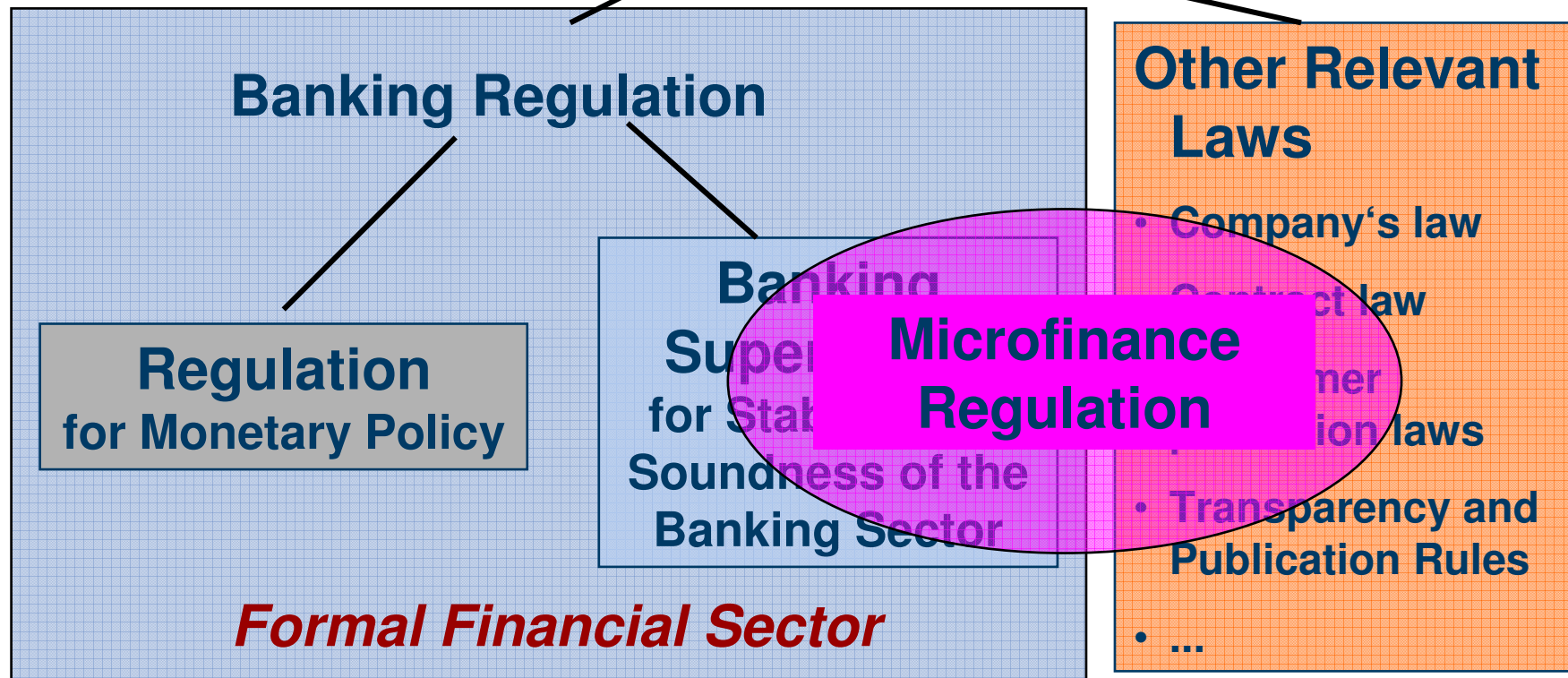
Legal and Regulatory Framework



Regulation of Microfinance: What does it really mean?



Legal and Regulatory Framework



MFIs as actors within the general legal framework



What is not allowed: Collecting savings from the broad public!

But within the general legal framework, there still are relevant choices:

- Which legal structure shall the MFI choose?
- Shall the MFI apply stricter transparency, social, ecological or consumer protection standards than the law prescribes?
- Shall the MFI get a rating?
- Interlinkage to Banks.....

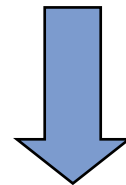
Other Relevant Laws

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

Transformation into the formal financial system – Pros and Cons



The objectives of formal financial sector regulation are different to the mission of MFIs!

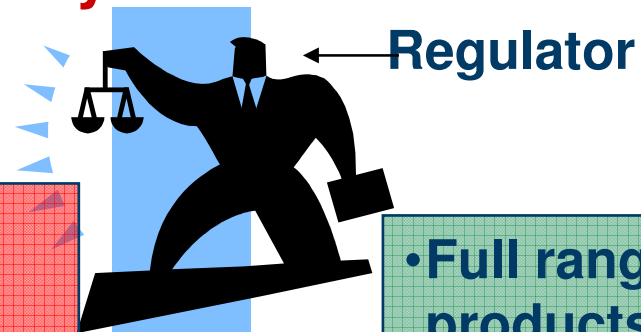


MFIs cannot expect special consideration of their mission, if overriding objectives of monetary policy or the soundness and stability of the banking sector are concerned!

Therefore, when transforming into a formal financial institution:



The advantages and disadvantages of being part of the formal financial system come in one package!



- Higher equity
- Higher administrative costs
- Restrictions by monetary policy
 - minimum reserves
 - Portfolio caps
 - ...

- Full range of financial products
- Savings from the public
- Access to capital markets
-

For small institutions which do not want to grow



It might not pay off...

Advantages of formalization



Disadvantages of formalization

For MFIs which want to grow and be a player in the financial market...



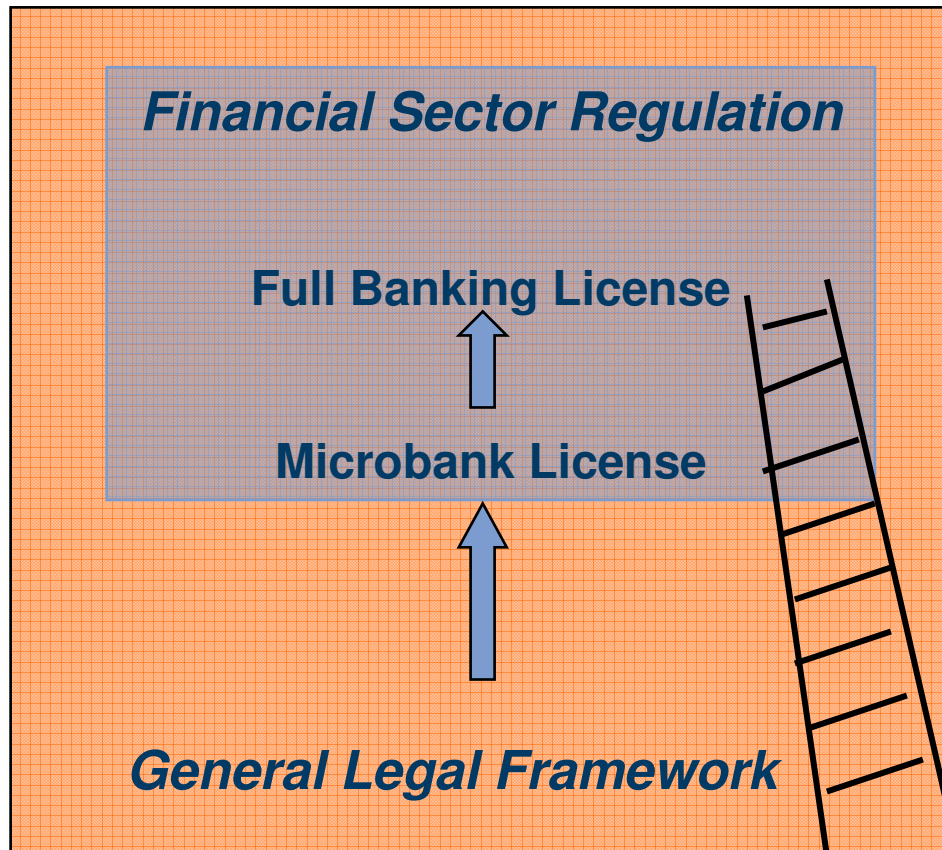
...there is no alternative to formalisation in the long run!

Advantages of formalization



Disadvantages of formalization

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!

Conclusion



- **A special licence for Microbanks can provide an entrance into the formal financial system.**
- **However, a Microbank licence should not mix up the objectives of banking authorities with the objectives of microfinance promoters.**
- **Softer standards should go along with lower risks for the financial system and lower supervisory costs.**

Otherwise, a special Microbank Licence will not foster financial deepening, but rather create disruptions and loopholes for regulatory arbitrage!

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

