The Economist Intelligence Unit

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Global microscope on the microfinance business environment 2013

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About this report

This report outlines the findings of The Economist Intelligence Unit's in-depth analysis of the microfinance business environment in 55 countries. The index that underlies this report allows countries and regions to be compared across two broad categories: *Regulatory Framework and Practices*, which examines regulatory and market-entry conditions, and *Supporting Institutional Framework*, which assesses business practices and client interaction. The Microscope was originally developed for countries in the Latin American and Caribbean region in 2007 and was expanded into a global study in 2009. Most of the research for this report, which includes surveys, interviews and desk analysis, was conducted between June and July 2013. This year's Microscope builds on last year's study and analyses annual trends according to the new methodology implemented in 2011.

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The complete index, as well as detailed country analysis, can be viewed on these websites:
www.eiu.com/microscope2013; www.fomin.org; www.caf.com/es/mipyme; www.centerforfinancialinclusion.org and www.citimicrofinance.com.

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About The Economist Intelligence Unit

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through a global network of more than 350 analysts and contributors, we continuously assess and forecast political, economic and business conditions in more than 200 countries. As the world's leading provider of country intelligence, we help executives, governments and institutions by providing timely, reliable and impartial analysis of economic and development strategies. For more information, visit www.eiu.com.

About the Multilateral Investment Fund

The Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank Group, supports economic growth and poverty reduction in Latin America and the Caribbean through encouraging increased private investment and advancing private-sector development. It works with the private sector to develop, finance, and execute innovative business models that benefit entrepreneurs and poor and low-income households; partners with a wide variety of institutions from the private, public and non-profit sectors; evaluates results; and shares lessons learned. The MIF is a laboratory for testing pioneering, market-based approaches to development, and an agent of change that seeks to broaden the reach and deepen the impact of its most successful interventions. For more information, visit www.fomin.org.

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CAF—development bank of Latin America—has the mission of stimulating sustainable development and regional integration by financing projects in the public and private sectors, and providing technical co-operation and other specialised services. Founded in 1970 and currently with 18 member countries from Latin America, the Caribbean, and Europe, along with 14 private banks, CAF is one of the main sources of multilateral financing and an important generator of knowledge for the region. For more information, visit www.caf.com.

About the Center for Financial Inclusion at Accion

The Center for Financial Inclusion at Accion (CFI) helps bring about the conditions to achieve full financial inclusion around the world. Constructing a financial inclusion sector that reaches everyone with quality services will require the combined efforts of many actors. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, using a toolkit that moves from thought leadership to action. For more information, visit www.centerforfinancialinclusion.org.

About Citi Microfinance

Working across Citi's businesses, product groups and geographies, Citi Microfinance serves 150 microfinance institutions (MFIs), networks and investors as clients and partners in nearly 50 countries with products and services spanning the financial spectrum—from financing, access to capital markets, transaction services and hedging foreign exchange risk, to credit, savings, remittances and insurance products—to expand access to financial services for the underserved. For more information, visit www.citimicrofinance.com.

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Contents

Executive summary

After years of expansion, punctuated by the setbacks of the 2008 global financial crisis and the subsequent over-indebtedness crises in some leading microfinance markets, global microfinance continues on its growth trajectory. What began as micro-credit some 40 years ago has evolved to include a broader portfolio of financial services, and this portfolio is still expanding, both in terms of services and client reach. Today's leading microfinance institutions (MFIs) are leveraging the micro-credit platform to expand their offering of financial services to a broadening population base. In doing so, they are encountering other players in this expanding industry, from traditional banks to mobile-communications companies. To explore this evolution, the *Microscope 2013* report features a special article that examines three cases from around the globe that highlight the ways in which firms have shifted toward broader financial inclusion, demonstrate common characteristics among a diverse range of providers and describe a potential structure for a more inclusive financial-services ecosystem.

This shift toward broader financial inclusion is reflected in the trends in innovative, yet prudent, expansion and maturing client protection explored in the *Global microscope on the microfinance business environment 2013* research programme. The *Microscope 2013* also goes beyond these trends in its analysis to provide a comprehensive picture of microfinance, benchmarking the regulatory and operating conditions for microfinance in 55 countries. MIF, CAF, the Center for Financial Inclusion at Accion and Citi Microfinance commissioned and funded The Economist Intelligence Unit's fifth annual effort to assign ratings to microfinance markets in these 55 countries. The *Microscope 2013* also marks the seventh annual assessment of markets in Latin America and the Caribbean.

Over the years, the popular consensus on microfinance has shifted across the spectrum with an anti-poverty *silver bullet* at one end and a threat to the financial solvency of the global poor at the other. The work of MFIs has pushed the developing world closer to full financial inclusion, thus reinforcing their role as a central player in poverty-reduction strategies. Full financial inclusion is the next frontier for microfinance—delivering a full suite of financial services to the world's disadvantaged populations brings with it challenges similar to those MFIs faced offering micro-credit to entrepreneurs at the base of the pyramid. The cost of reaching ever-poorer clients is a challenge. Nevertheless, MFIs, banks and their partners are developing more efficient methods of servicing their clients. Correspondent banking, agency relationships and mobile banking all offer lower-cost ways for all types of financial-service providers, including insurers, to increase the reach of credit, savings and payment services.

Mobile banking is at the leading edge of

financial inclusion. Kenya's now famous M-Pesa mobile-money service has inspired MFIs and financial-services providers in other countries, while a related service, M-Shwari, now offers millions of Kenyans savings and short-term credit on a mobile platform. Both services are contributing to a virtuous cycle of financial and technological innovation in Nairobi. A number of business incubators, accelerators and investors have based themselves in Kenya, forming part of a burgeoning start-up scene. Impact investors including Accion Frontier Investments Group, Grameen Pioneer Fund and Invested Development are funding innovations in poverty reduction that leverage the network effects of financial inclusion.

In the best cases, MFIs' renewed push toward full financial inclusion incorporates the lessons that the microfinance industry has learned over the past four decades. The current edition of the Microscope , documents, among other trends, how the inclusion of microfinance-related information in credit bureaus in many countries is correcting information asymmetry to reduce the incidence of over-indebtedness and multiple lending in saturated micro-credit markets. Credit bureaus that include positive information even help borrowers to access new financial services by providing a more complete picture to potential lenders.[1 2]

Incentivising borrowers' good behaviour is one step towards ensuring their inclusion in the global financial system. Yet, MFIs must be sure that their clients enter on a level playing field, guaranteeing that financial products assist in reducing poverty, not perpetuating it. The *Microscope 2013* grades national microfinance business environments on two standards of client protection to promote fair treatment of microfinance customers and a healthy microfinance industry: transparent pricing and dispute-resolution systems. Transparent pricing for microfinance is fundamental to making sure that clients have the information to make the right choices as they seek financial inclusion. Top performers on pricing transparency in the *Microscope 2013* (Armenia, Bolivia, Bosnia and Herzegovina, and Peru) are also home to competitive and dynamic microfinance markets. The *Microscope 2013* also examines dispute-resolution mechanisms to ensure that microfinance clients have access to timely and affordable resolutions in the event of disagreements with lenders. No country achieved a perfect score, but nine countries improved compared to last year, including India, where a combination of government-led and MFI-led solutions has increased the effectiveness of dispute-resolution mechanisms for clients following the 2010 over-indebtedness crisis. On average, clients in Latin America and the Caribbean had access to better-functioning dispute-resolution systems than in other regions.

Covering the 12 months to July 2013, the *Microscope 2013* evaluates the microfinance industry across two distinct categories: *Regulatory Framework and Practices*, including *legal recognition for MFIs, national regulatory and supervisory capacity, policies towards deposits* and *market distortions*; and *Supporting Institutional Framework*, especially *financial-reporting standards and transparency, credit bureaus, pricing, dispute resolution* and *policies for offering microfinance through new agents and channels*. The index also takes into account whether, and to what extent, political shocks have affected the demand for microfinance services and general country conditions.

The *Microscope 2013* used the same set of indicators and methodology as the 2012 study, and an effort was made to increase consultations with MFIs, networks, regulators, consultants and investors. We again interviewed a diverse group of stakeholders in order to include recent developments and policy changes in each country. As in previous years, we conducted an online survey to incorporate the views of an expanded

1 Barron, John M., and Michael Staten (2003). "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience." http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.199.3397&rep=rep1&type=pdf

2 Powell, Andrew, Nataliya Mylenko, Margaret Miller, and Giovanni Majnoni (2004)."Improving Credit Information, Bank Regulation and Supervision: On the Role and Design of Public Credit Registries." http://elibrary.worldbank.org/docserver/download/3443.pdf?expires=1378390529&id=id&accname=guest&checksum=7E71EDC5E82A638F777D037556CF1A3E

community of microfinance specialists. Lastly, we contacted a broad range of individual microfinance networks to gain additional in-country expertise and receive feedback on the study.

Although it is impossible to capture every dimension of a country's microfinance environment, the index provides a means of distinguishing those countries with support for a greater availability of financing options for the poor, from those with considerable work to do. The index also fills an important data gap by quantifying the state of the regulatory and operating environment of microfinance. Lastly, the index is intended to spur dialogue about sound policy and practice that will encourage positive reform in the microfinance industry. ■

Microscope indicators

The three categories for this index and the 12 indictors into which they are subdivided are as follows:

Regulatory Framework and Practices

Regulation and supervision of microcredit portfolios
Formation of regulated/supervised microcredit institutions
Formation/operation of non-regulated microcredit institutions
Regulatory and supervisory capacity for microfinance (including credit and other services)
Regulatory framework for deposit-taking

Supporting Institutional Framework

Accounting transparency
Client protection: transparency in pricing
Client protection: dispute resolution
Credit bureaus
Policy and practice for financial transactions through agents

Adjustment Factor: Stability

Political shock to microfinance
Political stability

Scoring methodology: Each of the first ten scoring criteria are scored from 0 to 4, where 4=best and 0=worst. Once indicator scores have been assigned, these are aggregated to produce an overall scoring range of 0-100, where 100=best. Overall scores and rankings are calculated by attributing a 50% weight to *Regulatory Framework and Practices* and *Supporting Institutional Framework* category scores.

Finally, a third category, *Stability*, is added to the index to adjust each country's score for political instability. This category evaluates political shocks to the microfinance sector and general political stability, which are combined into an aggregate score between 0 and 100. The index consults the following formula in order to calculate the score reduction for countries undergoing political instability:

Percentage reduction to Supporting Institutional Framework = [100 – Stability] x 0.25

For a detailed description of the scoring methodology, please refer to the Appendix. ■

Key findings

Marking its sixth year at the top of the *Microscope* ranking, Peru maintained its number one position, demonstrating a well-equipped regulatory environment, a competitive and innovative market, and leadership on both measures of client protection assessed by the study. IFRS (International Financial Reporting Standards) have been implemented and the banking regulator oversees nearly the entire microfinance-loan portfolio. A recent law regulating electronic money created a new class of transaction services companies that opens up opportunities to extend financial services on electronic platforms.

The remaining top five countries from 2012 also maintained their positions in 2013, although Bolivia's and Kenya's overall scores declined, while Pakistan and Philippines sustained or improved their scores on all indicators. At number two, Bolivia's score declined due to changes in its regulatory environment. A long-anticipated financial-services law took effect at the time of this analysis and included interest-rate caps and loan quotas for specific productive sectors. At the same time, the reform will formalise all microfinance activity and expand financial access.

Nearly tied with Bolivia, Pakistan followed at number three. The country saw the incorporation of two new microfinance banks (MFBs) last year and the nationwide rollout of the microfinance credit bureau after a successful pilot programme. The expansion of the bureau includes extensive training and technical and financial support for MFIs. Philippines ranked number four, as it improved its score for *credit bureau effectiveness* and *reliability and increased usage of branchless banking*. While still at an early stage, the Philippines' microfinance credit bureau is growing, as more MFIs join and share borrower data. In addition, widespread agent-banking options, including micro-insurance agency relationships, also boosted Philippines' score.

Kenya posted a lower overall score in 2013, held back by a lack of oversight of compulsory savings at non-regulated MFIs. However, credit-bureau improvements were a bright spot, as sharing of positive and negative information on borrowers increased, but MFIs representing more than half of borrowers still need to be included in the system. Meanwhile, credit-bureau improvements also contributed to Cambodia's continued rise. After entering the top ten last year, the country jumped two more spots this year to number six, just behind Kenya. Cambodia's credit bureau completed its first year of operation and MFIs have recognised the bureau for helping them avoid lending to over-indebted clients. In addition, an arbitration centre launched and could provide an alternative for microfinance dispute resolution.

At the other end of the spectrum, Vietnam again placed last in the *Microscope 2013* ranking, despite improvements that include the establishment of the first private credit bureau and a push toward mobile banking and electronic transactions. However, neither of these improvements

specifically targeted microfinance. Also at the bottom of the ranking, Haiti's score dropped several points as a result of weak governing institutions and a lack of regulation and supervision of deposit-taking non-governmental organisations (NGOs).

Azerbaijan's score increased the most, by 14 points, with improvements in transparent pricing, dispute resolution, use of credit bureaus and agent-based financial transactions, pushing the country's ranking to 15th overall from 33rd last year. In contrast, Ecuador fell 12 places, to 23rd, as non-regulated micro-credit institutions face more obstacles to operate, along with a loss of technical expertise in the credit information system (CIS) associated with the transfer of the private credit bureau to a new public system.

Microscope 2013 showed more countries with improving overall scores than declining scores (30 improving scores versus 19 declining scores), and the improvements outpaced the declines, demonstrating, on average, an enhanced global environment for microfinance compared to last year. However, most of this year's improvements affected the *Supporting Institutional Framework* for microfinance, while scores on *Regulatory Framework and Practices* actually declined overall. Increased client-protection activities, the expansion of mobile banking and growth of credit bureaus drove the improvement in the *Supporting Institutional Framework*. However, credit-bureau improvements were largely confined to countries that already had at least some basic reporting. As was the case last year, one-fifth of countries in this analysis still do not have a functioning credit bureau. ■

Regional findings

East and South Asia

The 12 countries of the Asian region (seven in East Asia and five in South Asia) again ranked third among the *Microscope*'s five regions in overall score, owing mainly to a relatively strong performance in *Regulatory Framework and Practices*, with the second-highest score in this analysis. As a whole, the Asian region had the third-highest score on *Supporting Institutional Framework* and was the third-strongest in terms of Stability. Overall, the region's political stability improved. Political interference continues in Sri Lanka's microfinance industry, but strong demand has sustained the sector's dynamism. In India, the wider effects of the Andhra Pradesh crisis have subsided and microfinance institutions (MFIs) do not consider political interference to be a major risk in the future. However, banks that bailed out MFIs during the crisis may still face write-offs.[1] The country's micro-loan portfolio increased by 30% in 2012, reflecting the strength of the industry's recovery. Nonetheless, in other parts of the region, political factors could pose a threat to microfinance. In Nepal, regional-autonomy movements in parts of the country have contributed to the politicisation of some microfinance workers' unions that could disrupt MFI operations.

Elsewhere in the region, the microfinance industry continued to perform well in this year's analysis. Pakistan (3rd), Philippines (4th) and Cambodia continued in the global top ten, with Cambodia improving from eighth to sixth place. A functioning credit bureau covering 80% of microfinance loans and a nascent dispute-resolution system were Cambodia's main improvements. Pakistan's credit bureau also shows coverage of more than 90% of microfinance clients. A comprehensive package of technical and financial assistance has been fundamental to the success of Pakistan's credit-reporting system. In Philippines, similar assistance to expand the existing bureau's coverage of MFIs could increase its score next year.

India and Mongolia both improved their rankings, India from 22nd to 16th and Mongolia from 25th to 21st. Scores in both countries were boosted by improvements in the dispute-resolution systems for microfinance clients. Vietnam remained at the bottom of the *Microscope 2013* ranking, while Thailand moved out of the bottom five. Both countries improved their credit information systems (CIS): in Thailand, all major financial institutions (FIs) are members of the National Credit Bureau, and in Vietnam regulators licensed the first private credit bureau.

On average, the Asian region leads globally in *policy and practice for financial transactions through agents*, such as mobile and correspondent banking. Pakistan and Philippines lead the region, with four

1 Bhoir, Anita (August, 2013), "Banks may write off Rs 7200 crore debt to microfinance institutions." Internet article accessed August 2013, http://economictimes.indiatimes.com/news/news-by-industry/banking/finance/banking/banks-may-write-off-rs-7200-crore-debt-to-microfinance-institutions/articleshow/21872024.cms

partnerships between mobile operators and MFIs in Pakistan and electronic wallets and correspondent relationships for micro-insurance in Philippines. While such developments have targeted microfinance and are driving financial inclusion in these two countries, elsewhere in the region mobile banking has been limited to commercial banks (Bangladesh and Indonesia, for example). Mobile-banking options for microfinance clients are lacking in China and are in their early stages in India.

Eastern Europe and Central Asia

On average, scores rose in Eastern Europe and Central Asia (ECA), but countries in the region showed both the biggest gains and the largest declines. Improvements in Azerbaijan and Georgia, with two of the largest score increases in the *Microscope 2013*, pushed up overall scores, while Kyrgyz Republic posted the largest score decline in the study. Compared to other regions, ECA's overall score was second to last in this ranking, but the region performed well on the *Supporting Institutional Framework* category, outscoring every region except Latin America and the Caribbean. The region posted the second-lowest scores for both *Regulatory Framework and Practices* and *Stability*, only scoring higher than the Middle East and North Africa in both categories.

As in previous years, ECA's *Regulatory Framework and Practices* score was pushed down by weak scores on the *formation/operation of non-regulated micro-credit institutions* (lowest of all regions) and the *regulatory framework for deposit-taking* (second-lowest). In four of the seven ECA countries, regulated MFIs cannot accept deposits. By contrast, all countries covered in the *Microscope 2013* in East and South Asia and Sub-Saharan Africa allow regulated MFIs to accept deposits. Of the ECA countries where MFIs can accept deposits, only Tajikistan's regulations are not considered overly burdensome.

Kyrgyz Republic posted the largest score decline in the study, seven points, dropping it to 38th from 30th last year. Kyrgyz Republic's declining score resulted from forthcoming interest-rate caps that would disadvantage MFIs in competition with the banking sector. In addition, Kyrgyz Republic lacks formal dispute-resolution mechanisms. Armenia's overall score was steady, while Bosnia and Herzegovina, Tajikistan and Turkey declined slightly. With no regulatory or institutional-framework improvements this year, Turkey continues as the lowest-ranked ECA country, tied with Sri Lanka and Trinidad and Tobago for 50th place in the global ranking. Microfinance in Turkey continues to be a marginal activity in a well-regulated, technologically savvy banking sector. Only two MFIs exist, and the regulatory environment limits the entrance of new players.

Transparency is a strong point in the region. On average, ECA countries posted the highest scores for both *accounting transparency* and *transparent pricing*. *Accounting transparency* measures the extent to which MFI accounting standards conform to international norms and transparent pricing is an important measure of client protection. In Armenia, the central bank has developed a financial-services shopping tool designed to help clients compare competing products from different FIs. Azerbaijan's central bank has issued rules promoting interest-rate transparency and the national MFI association has augmented these rules with a voluntary code of ethical standards for regulated micro-lenders.

ECA countries continue to lag other regions in mobile and branchless banking. The region's score for *policy and practice for financial transactions through agents* has improved, but is the lowest in the *Microscope 2013*. Commercial banks in Bosnia and Herzegovina offer electronic and telephone-banking services, but MFIs have not adopted these technologies. In Georgia a newly registered payment-service provider intends to launch a mobile-money solution later this year. Cash-in terminals and point-of-sale (POS) systems are on the rise in Azerbaijan, increasing electronic transactions, but in Kyrgyz Republic the regulatory system hampers mobile-banking innovation.

Latin America and the Caribbean

Latin America and the Caribbean (LAC) again led the other regions in the *Microscope 2013* with the highest overall regional score, leading on *Supporting Institutional Framework*, but ranking third on *Regulatory Framework and Practices*. In fact, only five of the 21 LAC countries (Paraguay, Honduras, Costa Rica, Guatemala and Haiti) scored higher in the *Regulatory Framework* category than on *Institutional Framework*. Latin America and the Caribbean is also the most politically stable region for microfinance, scoring nearly 15 points higher in the *Stability* category than second-placed East and South Asia.

LAC countries captured half of the slots in the global top ten. Peru and Bolivia led the global rankings in first and second place, respectively, while Colombia, El Salvador and Dominican Republic also made it into the top ten. Peru's microfinance market features low barriers to entry and a competitive marketplace, characterised by adequate supervision and solid credit bureaus. Although Bolivia again ranked 2nd overall, changes in the regulatory environment have negatively affected its score. Improvements in pricing transparency, financial transactions through agents, and regulatory capacity in Dominican Republic pushed the country into the global top ten this year. Panama nearly tied with Dominican Republic to remain in the top ten but difficulty starting new non-governmental organisation (NGO)-MFIs and uncertainty on supervision of co-operatives contributed to the country's slightly declining score. A weak regulatory environment in Mexico also pushed it out of the top ten, as evidenced by the postponement of regulation of non-profit savings and loan co-operatives (S&Ls).

A number of LAC countries implemented regulatory changes during the past year, with both positive and negative implications for the microfinance operating environment. Nicaragua's microfinance regulatory framework has increased confidence in the industry following a 2009-10 no-pay movement and political interference. Interest rates are not subject to government-imposed caps, and rules, like capital requirements, have been flexible enough for existing MFIs to make the transition to the new framework.

In contrast, Bolivia's recently passed Financial Services Law introduces formal interest-rate caps and quotas on loans, which will also put a strain in the regulatory and supervisory capacity of the Autoridad de Supervisión del Sistema Financiero (ASFI, the Financial System Supervisory Authority). Moreover, a major tax change has hit the Bolivian microfinance industry, which has limited the profitability of regulated MFIs. Ecuador's new regulatory framework for "popular" finance has created uncertainty for MFIs. All lenders involved in popular finance are now subject to formal regulation and interest-rate caps. Unlike Nicaragua, it is uncertain to what extent the new regulations will be tailored to match the size of the institutions overseen. The regulatory burden could increase operating costs, while interest-rate caps limit profitability, likely curtailing smaller MFIs' ability to offer services to the lowest-income segments of the population. There are similar concerns among MFIs in El Salvador, where newly established interest-rate caps could force some MFIs into bankruptcy and limit credit availability. At the same time, Ecuador's transfer of credit-bureau responsibilities from the private to the public sector has created the resulted in the loss of expertise and is likely provoke the loss of information while the transfer is on-going. The technical capacity of the private bureau has been diminished by the departure of many of its employees prior to the transition. Despite developments in Ecuador, LAC leads all other regions on the inclusion of microfinance information in credit bureaus.

Governments in several countries improved regulation of financial agents, creating opportunities for further innovation in correspondent and mobile banking, but, to date, implementation of these new services is still at the pilot stage. New regulations allow FIs in the Dominican Republic to increase market penetration

by offering banking services via authorised agents, including hotels, pharmacies and supermarkets. Since 2011, Nicaragua's national financial regulator has built a regulatory system for electronic and mobile banking, but, to date, it still does not cover non-regulated MFIs. Nonetheless, larger MFIs are working with mobile operators to expand their services via mobile-telephone banking. Recent regulations in Panama provide the framework for mobile and other forms of electronic banking, and use of agent banking is higher than regional averages. Moreover, Uruguay has also recently enacted regulations on correspondent banking.

New regulations in client protection increased pricing transparency in El Salvador and enhanced consumer rights in dispute resolution in Honduras. While El Salvador's Usury Law capped interest rates, it also abolished commissions related to lending, creating a more transparent pricing system for consumers. As a whole, the LAC region ranks third on *transparent pricing*.

Improvements to dispute resolution in Honduras have shortened response times, removed requirements that only allowed for in-person claim submission and increased reporting requirements regarding disputes and their resolutions. LAC leads globally on dispute resolution; all countries in the region have a dispute-resolution mechanism, although the resources assigned to these mechanisms vary by country. Peruvian MFIs must publish client-dispute statistics online, while both Brazil and Trinidad and Tobago use ombudsmen in the regulated financial sector to help resolve disputes. Mexico's financial services consumer-protection agency offers both conciliation and arbitration services, and a pending banking-sector reform would increase the agency's ability to issue sanctions and resolve disputes.

Middle East and North Africa

Although the four countries of the Middle East and North Africa (MENA) region showed slight improvements in the *Supporting Institutional Framework* and *Stability* categories, the region still posted the lowest overall score and the lowest scores in all three categories. Scores in the *Regulatory Framework and Practices* category were unchanged. In general, regulation creates obstacles to micro-credit provision in the region, although the formation of regulated MFIs is easier in Morocco and Yemen. In fact, the region posted the second-highest average score for *formation of regulated/supervised micro-credit institutions*, just behind Sub-Saharan Africa. However, deposit taking at regulated MFIs is a weak spot: MFIs cannot accept deposits in Lebanon and Morocco, and regulations are burdensome in Egypt and Yemen.

The regulatory environment in MENA has seen few changes during the past year. Notably, Morocco updated its Microfinance Associations Law and additional rules and regulations are forthcoming. The main impact of the Law has been to encourage consolidation among smaller micro-credit associations (MCAs). However, some microfinance professionals have criticised the Law because it does not assist MFIs in transforming into commercial banks, nor does it assist MFIs that would prefer to remain NGOs. In Egypt, a long-awaited update to the 2002 NGO Law that also regulates MFIs operating as NGOs is still under consideration. Legislation specific to the microfinance industry has been delayed repeatedly due to political turmoil.

At 35th, Morocco is the highest-ranked MENA country in *Microscope 2013*, moving up three places from last year after improvements in dispute resolution. Lebanon held steady at 40th in the global ranking, while Yemen increased one place to 44th due to its improving security and rebounding microfinance industry. Egypt's score dropped slightly, but its ranking improved to 49th from 50th last year. Political instability continues to hamper further development in the microfinance industry, delaying regulatory reforms.

Morocco is the most stable MENA country in this study. Yemen continued to improve its stability for microfinance operations, as the security situation stabilised in the country and MFIs began to return to areas they had previously considered off-limits.

By the end of 2012, the number of microfinance clients in the country had risen by 47.8% compared to the beginning of the year. The political situations in Egypt and Lebanon reduced their stability scores slightly, but Yemen's gains meant MENA's regional average improved.

Client protection in the region is still in the early stages. Morocco's score on dispute resolution improved as a network of government-sponsored local tribunals have been able to provide more rapid resolution of complaints than the traditional court system. In addition, a national code of ethics for MFIs obliges them to increase client-protection activity. MENA's performance on *pricing transparency* is a weak spot for the region. None of the countries in the region imposes legal requirements for interest-rate transparency for micro-borrowers, and transparency efforts are entirely voluntary. In Egypt, MFIs do not routinely disclose interest rates, but a majority of MFIs in Lebanon do voluntarily disclose rates. Yemen's central bank is considering regulations that would mandate more transparent pricing in microfinance.

Lebanon is the only country in the region without a credit bureau available for MFIs. In Egypt, Morocco and Yemen, regulated MFIs have some level of access to existing bureaus or access to bureaus specifically focused on microfinance. Yemen's microfinance CIS lacks complete information, but participation in bureaus in Morocco and Egypt is higher and prevents multiple borrowing. Mobile and correspondent banking is still in the pilot stage in MENA countries. In Lebanon, Internet and mobile communications remain expensive, but, in Yemen, two mobile microfinance money-transfer services will soon be available. Yemen's central bank has not issued regulations to keep pace with these innovations, although it is consulting with the World Bank and plans to do so by the end of 2013.

Sub-Saharan Africa

Sub-Saharan Africa (SSA) maintained its ranking as the second-highest-ranked region in Microscope 2013, behind Latin America and the Caribbean and just ahead of East and South Asia. The region posted the highest score in the *Regulatory Framework and Practices* category, but scored second-lowest, only beating the Middle East and North Africa, in the *Supporting Institutional Framework* category. As a whole, SSA was slightly more stable than East and South Asia, but both scored well below Latin America and the Caribbean in *Stability*.

Overall scores in SSA increased this year, but regional leader, Kenya, edged lower, while still maintaining its fifth-place ranking. Unregulated savings mobilisation by some NGO-MFIs and inter-communal violence that affected some MFI operations reduced Kenya's score, despite improvements in credit-bureau usage and an increase in overall political stability. Uganda (joint 8th) was the second SSA country in the global top ten this year, with a score buoyed by a favourable political and macroeconomic environment for microfinance. Ghana also improved its score this year, rising from 15th to 13th, placing it within striking distance of the top ten. Improvements in *pricing transparency* and *usage of credit bureaus* resulted in the increase, despite a score decrease related to the slow development of mobile-banking options in the country.

SSA leads the world in *Regulatory Framework and Practices*, garnering the highest scores for the regulation of micro-credit portfolios, the formation of regulated MFIs and regulation for deposit-taking MFIs. In fact, all SSA countries in this analysis allow regulated MFIs to hold a range of deposits without overly burdensome regulation. Deposit-taking MFIs in leading countries, including Kenya, Madagascar, Senegal and Uganda, offer both demand and term deposits to clients. Countries in the region continued to update their regulatory frameworks in the past year, including changes in Cameroon and Senegal that could negatively impact MFIs, and updates in Democratic Republic of Congo, Nigeria and Tanzania that improve the microfinance operating environment. MFIs in Cameroon face increased reporting requirements from the Central African Banking Commission (CABC), but many MFIs will struggle to comply with

the quarterly reporting requirements because of limited access to electricity and the Internet. As a result, the requirements are unlikely to be enforced in the near term, but could inhibit MFI growth into rural or less-developed areas in the future. In Senegal the lowering of interest-rate caps in 2014 could limit the growth of small and medium MFIs. The rate cap for MFIs will be reduced from 27% to 24%. Not all MFIs respect the current 27% limit due to high costs of operation in challenging areas, and small and medium MFIs will face difficulties operating at the 24% cap. However, larger MFIs that frequently receive financing at preferential rates from development agencies and commercial banks will find it easier to respect the new limit.

Positive regulatory changes include the Democratic Republic of Congo's new Microfinance Law that will take effect in February 2014 and increase control mechanisms for lenders. Specifically, the Law limits unfair competition and improves client protection. All three recognised types of MFIs can offer credit, but only microfinance companies can accept deposits. In Nigeria, the central bank issued revised supervisory guidelines that prioritise organic growth in the microfinance industry; MFIs cannot apply directly for national licences without first operating as local and state entities. In addition, the central bank has assumed a more proactive role in regulating MFIs and is using a risk-based approach to supervision. Similarly, Tanzania's central bank is also shifting to a risk-based approach for MFI supervision and decentralising responsibilities through supervisory branches in several regions in Tanzania.

Sub-Saharan Africa has been at the centre of the development of mobile banking for microfinance, especially in Kenya, where millions of mobile users have access to extensive agent networks for transactions and savings and short-term credit products via mobile devices. Kenya is the only country in the *Microscope 2013* to receive the highest possible score on *policy and practice for financial transactions through agents*. Its regional peers have lagged behind Kenya's development of mobile banking. In other countries it is not clear whether regulation has helped or hindered the development of mobile-banking services. The government of Ghana passed facilitating regulations early on, but the country's score on this indicator has declined because mobile-banking services are still in the pilot stage. However, Uganda has nearly 9m mobile-money customers, while the industry is still unregulated. Meanwhile, in the Democratic Republic of Congo, existing mobile infrastructure is an impediment to mobile-banking innovation.

In *transparency in pricing*, SSA lags most regions, except the Middle East and North Africa. Ghana was the only country in the region to increase its score on *transparent pricing* this year. Ghana's participation in the Transparent Pricing Initiative has resulted in the publication of standardised pricing data from 40 MFIs, covering 76% of micro-borrowers in the country and has increased the pricing information available to potential clients. In the remaining SSA countries, fewer than half of MFIs comply with transparent-pricing regulations. Ghana is also a leader in dispute resolution, along with Nigeria. In Nigeria, the Consumer and Financial Protection Division of the central bank and the Consumer Protection Council have helped aggrieved customers receive refunds without engaging in a lengthy judicial process. Nonetheless, in most other SSA countries, dispute-resolution mechanisms do not work well in practice. ■

Overall microfinance business environment rankings

Weighted sum of category scores (0-100 where 100=most favourable)

Rank	Country	2013 Score	Change
1	Peru	82.5	+2.7
2	Bolivia	69.8	-2.0
3	Pakistan	69.7	+2.3
4	Philippines	67.9	+4.6
5	Kenya	61.1	-1.7
6	Cambodia	60.3	+4.6
7	Colombia	58.5	+2.5
=8	El Salvador	53.8	-2.5
=8	Uganda	53.8	+2.2
10	Dominican Republic	53.6	+7.5
=11	Panama	53.5	-0.1
=11	Paraguay	53.5	+1.5
13	Ghana	53.3	+2.3
14	Nicaragua	52.9	+9.0
15	Azerbaijan	52.4	+14.0
16	India	52.0	+6.3
17	Uruguay	51.5	+7.3
18	Mexico	51.1	-2.5
19	Chile	49.9	-1.9
20	Brazil	49.1	-0.1
21	Mongolia	48.9	+4.7
22	Rwanda	48.4	-0.2
23	Ecuador	48.3	-4.3
24	Nigeria	48.2	+4.8
25	Tanzania	47.9	+1.4
26	Armenia	47.4	-
27	Honduras	47.2	+0.9
28	Indonesia	46.5	+2.2

Rank	Country	2013 Score	Change
29	Bosnia and Herzegovina	45.2	-0.1
30	Mozambique	44.0	-
31	Georgia	43.4	+9.7
32	Costa Rica	42.1	+2.4
33	Guatemala	41.4	-
34	China	39.1	+4.7
35	Morocco	38.3	+4.6
36	Tajikistan	36.0	-0.3
37	Madagascar	35.9	-
38	Kyrgyz Republic	35.1	-7.0
39	Senegal	34.4	+0.3
40	Lebanon	33.3	-0.2
41	Bangladesh	32.8	-
42	Jamaica	31.8	+0.3
43	Cameroon	31.7	+0.1
44	Yemen	31.0	+0.6
45	Argentina	28.8	-
46	Dem. Rep. of Congo	28.4	-0.1
47	Nepal	28.3	-3.0
48	Thailand	27.6	+2.2
49	Egypt	27.3	-0.1
=50	Trinidad and Tobago	26.5	+2.4
=50	Sri Lanka	26.5	-1.7
=50	Turkey	26.5	-0.1
53	Venezuela	26.1	+0.9
54	Haiti	25.8	-3.3
55	Vietnam	25.6	+4.1

Rankings by category

Regulatory Framework and Practices

(Weighted 50% in the overall index)

Rank	Country	2013 Score	Change
=1	Peru	80.0	-
=1	Philippines	80.0	-
=3	Pakistan	75.0	-
=3	Uganda	75.0	-
=5	Cambodia	70.0	-
=5	Kenya	70.0	-5.0
=7	Bolivia	65.0	-5.0
=7	Paraguay	65.0	-
=7	Tanzania	65.0	+5.0
=10	Colombia	60.0	+5.0
=10	Mongolia	60.0	-
=10	Rwanda	60.0	-
=13	Azerbaijan	55.0	+10.0
=13	Dominican Republic	55.0	+5.0
=13	El Salvador	55.0	-5.0
=13	Honduras	55.0	-
=13	Madagascar	55.0	-
=13	Mozambique	55.0	-
=13	Nicaragua	55.0	+10.0
=13	Nigeria	55.0	+5.0
=21	China	50.0	-
=21	Ecuador	50.0	-5.0
=21	Ghana	50.0	-
=21	Indonesia	50.0	-
=21	Kyrgyz Republic	50.0	-10.0
=21	Mexico	50.0	-5.0
=21	Panama	50.0	-5.0
=28	Brazil	45.0	-5.0
=28	Cameroon	45.0	-
=28	Chile	45.0	-
=28	Costa Rica	45.0	-
=28	Guatemala	45.0	-
=28	India	45.0	-
=28	Senegal	45.0	-
=28	Tajikistan	45.0	-5.0
=28	Yemen	45.0	-
=37	Bangladesh	40.0	-
=37	Dem. Rep. of Congo	40.0	-
=37	Georgia	40.0	-
=37	Uruguay	40.0	-
=41	Armenia	35.0	-
=41	Egypt	35.0	-
=41	Lebanon	35.0	-
=41	Morocco	35.0	-
=41	Nepal	35.0	-
=41	Vietnam	35.0	-
=47	Bosnia and Herzegovina	30.0	-5.0
=47	Haiti	30.0	-5.0
=49	Argentina	25.0	-
=49	Jamaica	25.0	-
=49	Sri Lanka	25.0	-5.0
=49	Thailand	25.0	-
=49	Turkey	25.0	-
54	Venezuela	20.0	-
55	Trinidad and Tobago	15.0	-

Supporting Institutional Framework

(Weighted 50% in the overall index)

Rank	Country	2013 Score	Change
1	Peru	90.0	+5.0
2	Bolivia	80.0	-
=3	Bosnia and Herzegovina	70.0	+10.0
=3	Pakistan	70.0	+5.0
=5	Armenia	65.0	-
=5	India	65.0	+10.0
=5	Uruguay	65.0	+15.0
=8	Chile	60.0	-
=8	Colombia	60.0	-
=8	Ghana	60.0	+5.0
=8	Kenya	60.0	+5.0
=8	Panama	60.0	+5.0
=8	Philippines	60.0	+10.0
=14	Azerbaijan	55.0	+20.0
=14	Brazil	55.0	+5.0
=14	Cambodia	55.0	+10.0
=14	Dominican Republic	55.0	+10.0
=14	El Salvador	55.0	-
=14	Mexico	55.0	-
=14	Nicaragua	55.0	+5.0
=21	Ecuador	50.0	-5.0
=21	Georgia	50.0	+20.0
=23	Honduras	45.0	+5.0
=23	Indonesia	45.0	+5.0
=23	Morocco	45.0	+10.0
=23	Nigeria	45.0	+5.0
=23	Paraguay	45.0	-
=28	Costa Rica	40.0	+5.0
=28	Guatemala	40.0	-
=28	Jamaica	40.0	-
=28	Mongolia	40.0	+10.0
=28	Rwanda	40.0	-
=28	Trinidad and Tobago	40.0	+5.0
=34	Argentina	35.0	-
=34	Lebanon	35.0	-
=34	Mozambique	35.0	-
=34	Tanzania	35.0	-
=34	Thailand	35.0	+5.0
=34	Uganda	35.0	-
=34	Venezuela	35.0	-
=41	Bangladesh	30.0	-
=41	China	30.0	+10.0
=41	Sri Lanka	30.0	-
=41	Tajikistan	30.0	+5.0
=41	Turkey	30.0	-
=46	Egypt	25.0	-
=46	Haiti	25.0	-
=46	Kyrgyz Republic	25.0	-5.0
=46	Nepal	25.0	-5.0
=46	Senegal	25.0	-
=51	Cameroon	20.0	-
=51	Dem. Rep. of Congo	20.0	-
=51	Madagascar	20.0	-
=51	Vietnam	20.0	+10.0
=51	Yemen	20.0	-

Stability

(Adjustment factor, which reduces the score in Supporting Institutional Framework by 25% of the political stability share)

Rank	Country	2013 Score	Change	Adjustment Factor
1	Costa Rica	92.5	-	-1.88%
=2	Brazil	87.5	-	-3.13%
=2	Uruguay	87.5	-	-3.13%
4	Jamaica	85.0	+5.0	-3.75%
=5	El Salvador	82.5	-	-4.38%
=5	Indonesia	82.5	-2.5	-4.38%
=7	Colombia	80.0	-	-5.00%
=7	Dominican Republic	80.0	+5.0	-5.00%
=7	Mexico	80.0	-	-5.00%
=7	Panama	80.0	-	-5.00%
=7	Senegal	80.0	+10.0	-5.00%
=7	Trinidad and Tobago	80.0	-	-5.00%
=13	Ghana	77.5	-	-5.63%
=13	Guatemala	77.5	-	-5.63%
=13	Mongolia	77.5	-	-5.63%
=13	Mozambique	77.5	-	-5.63%
=13	Peru	77.5	+2.5	-5.63%
=18	China	75.0	-	-6.25%
=18	Georgia	75.0	+10.0	-6.25%
=20	Argentina	72.5	-	-6.88%
=20	Bolivia	72.5	+5.0	-6.88%
=20	Ecuador	72.5	+7.5	-6.88%
=20	Paraguay	72.5	+25.0	-6.88%
=20	Philippines	72.5	-	-6.88%
=20	Sri Lanka	72.5	+20.0	-6.88%
=20	Turkey	72.5	-2.5	-6.88%
=20	Uganda	72.5	+50.0	-6.88%
=28	Morocco	70.0	-	-7.50%
=28	Nicaragua	70.0	+27.5	-7.50%
=30	Armenia	67.5	-	-8.13%
=30	Cambodia	67.5	-	-8.13%
=30	Cameroon	67.5	+2.5	-8.13%
=30	Nigeria	67.5	-	-8.13%
=30	Pakistan	67.5	-	-8.13%
=30	Rwanda	67.5	-5.0	-8.13%
=30	Venezuela	67.5	+20.0	-8.13%
37	Chile	65.0	-25.0	-8.75%
=38	Azerbaijan	62.5	-	-9.38%
=38	India	62.5	+25.0	-9.38%
=40	Lebanon	60.0	-5.0	-10.00%
=40	Tajikistan	60.0	-2.5	-10.00%
42	Tanzania	52.5	-25.0	-11.88%
43	Honduras	50.0	-25.0	-12.50%
44	Kenya	47.5	-20.0	-13.13%
=45	Bosnia and Herzegovina	45.0	-25.0	-13.75%
=45	Haiti	45.0	-25.0	-13.75%
=45	Nepal	45.0	-22.5	-13.75%
=45	Thailand	45.0	-	-13.75%
=49	Bangladesh	40.0	-	-15.00%
=49	Yemen	40.0	+25.0	-15.00%
=51	Dem. Rep. of Congo	35.0	-5.0	-16.25%
=51	Madagascar	35.0	-	-16.25%
=53	Kyrgyz Republic	22.5	-	-19.38%
=53	Vietnam	22.5	-	-19.38%
55	Egypt	15.0	-2.5	-21.25%

In focus

This article was prepared by Dr Paul Kielstra (Independent consultant). The author would like to thank Elisabeth Rhyne, Carlos Danel, Rudy Araujo, Sergio Navajas, Michael Joseph and Rajiv Sabharwal for the interviews.

From micro-credit to financial inclusion

Microfinance institutions (MFIs) are leveraging the micro-credit platform to expand their offering of financial services to a broadening population base. Meanwhile, other type of companies are also starting to provide such services to customers at the bottom of the economic pyramid. This article examines three cases from around the globe to highlight how firms have shifted towards broader financial inclusion; it also demonstrates common characteristics across a diverse range of providers and describes a potential structure for a more inclusive financial-services ecosystem.

Micro-credit: A limited solution

For many years, microfinance consisted almost exclusively of micro-credit—the provision of loans to the world's poor, especially women, typically to help recipients establish or expand very small businesses. The idea has been highly successful: the Microcredit Summit Campaign—a non-governmental organisation (NGO) that surveys providers on an annual basis—reports that, in 2011, 195m clients worldwide had such loans, up from 31m in 2000.

Even while demonstrating that the world's poor can be reliable credit customers, the growth of micro-credit has also highlighted the overall lack of financial services available to many of them. According to the World Bank's Global Financial Inclusion Database[1], 2.5bn people are without any sort of bank account, including 75% of those earning less than US$2 per day—a lack of access that impedes economic activity in any number of ways. Accordingly, financial inclusion (the provision of a wide range of appropriate financial services to the poor) has garnered increasing attention in development circles. Elisabeth Rhyne, managing director of the Center for Financial Inclusion at Accion, explains: "Over the past 20 years, the momentum has been credit-driven. In recent years, though, you have a shift from credit to payments and savings as the main products."

This shift involves more than simply a new focus on a wider range of products; important changes in the sector have created a complex mix of players seeking to enhance financial inclusion. Existing microfinance organisations (MFOs) had already been evolving as micro-credit grew. In Ms Rhyne's words, "A socially motivated and, originally, donor-driven movement has become an industry." Now, institutional development is progressing further. Traditional banks and financial services companies are seeking to tap into the markets that microfinance has uncovered with their own tailored savings and loan products. Similarly, technology is allowing disruptive financial service models, in particular around payment systems. These changes, for all their potential benefits, also bring regulatory challenges.

The three case studies in this article—a micro-credit NGO that became a bank; a telephone company that developed an extensive mobile-payments system, and a bank that has actively pursued the market at the bottom of the pyramid—help illustrate the practical efforts to increase

1 Global Findex database: http://datatopics.worldbank.org/financialinclusion/

The regulatory challenge

Carlos Danel, co-founder and executive vice-president of Compartamos Banco, notes, "The good news [about financial inclusion] is that many are now willing to provide these services. The downside is that you have all kinds of different standards and, in some cases, too many institutions chasing too few clients. We need sensible and appropriate regulation."

Creating the right regulation, however, is not simple. Rudy Araujo, secretary-general of the Association of Supervisors of Banks of the Americas (ASBA), points out that regulators face as steep a learning curve as everyone else in understanding the sometimes novel products and services being used to promote financial inclusion. They need, he explains to be open-minded and "understand the intentions of the product, whether it will generate risk to the financial system and, if so, to find a way to incorporate it in a supervisory framework." Adding to the complications, oversight of this market increasingly involves interaction with companies and regulators from other industries, such as telecommunications. "We do not necessarily speak the same language," he notes. "Finding common ground can be difficult."

Mr Araujo says that, in addition to developing a thorough understanding of these products and their providers, the more successful Latin American regulators have not integrated them directly into existing regulatory frameworks, but in their supervisory approaches. Instead, "The key is to create a special unit with a different mindset," which encompasses both traditional regulatory systemic stability concerns and the particular social objectives involved in financial inclusion.

Mr Araujo adds that regulators that have developed such an understanding and capacity are more willing to allow innovative change. This has reduced the sometimes excessive caution of the past among regulators. He says that, now, "Most have changed their approaches, so that they are moving forward avidly in supporting supervisory approaches to financial inclusion," while maintaining appropriate prudence.

Specialised units or expertise within regulatory agencies also help with another current challenge. Increasingly the mission of regulators is being expanded beyond guaranteeing financial stability, to promoting financial inclusion and providing consumer protection for poorer clients. Mr Araujo is wary of the risks involved. "The most important downside is a conflict of interest. Our role is to ensure financial stability, not to promote products, services or operators: that is the market's responsibility."

Overall, however, Mr Araujo is positive. Regulators in Latin America, he says, have "been very successful in supporting the process of financial inclusion." Looking ahead, specific challenges certainly remain, such as improving corporate governance in practice and addressing the risks of companies serving this market, most importantly to be able to adequately deter their being used by money-launderers or terrorist funders. Nevertheless, he is hopeful. "Microfinance is part of the landscape because we worked for many years to make it a segment of the financial infrastructure. Success has to do with public policy, how we approach regulation, and how we engage the industry in a productive conversation."

financial inclusion, as well as shedding light on how this trend might develop.

A micro-credit NGO evolves

In 1990, a Mexican NGO, Compartamos, started providing micro-loans to women to invest in their own businesses. Rather than serving individual clients, each person receiving credit was, and still is for the organisation's main product, part of a group of 12 to 50 women who mutually guaranteed each other's debts.

Carlos Danel, co-founder and chairman of the board, recalls, however, that over the following decade, financing restrictions impeded scaling-up. As an NGO, he says, "We could only have funding from international organisations and donors. We had a product, but did not have the finances. Our hunch was we could fund ourselves." Loan repayments were high enough that Compartamos's micro-credit activity was profitable.

Accordingly, in 2000 the company incorporated as a for-profit finance business and, in 2006, obtained a full banking licence, becoming CompartamosBanco. In 2007 the original investors, largely development organisations, sold around 30% of the shares in an initial public offering (IPO), making Compartamos a publicly traded firm. This sparked a substantial debate within the NGO community, in which some criticised the company for profiting excessively from the poor by charging

very high interest rates and argued that, after the IPO, Compartamos would favour shareholder interests over those of their clients.

Mr Danel responds that Compartamos's interest rates are competitive for Mexican microfinance, where rates are substantially higher than in many countries, and have continued to decline since the IPO. Moreover, the company's loans and clientele are the same type as before. He sees a strong board, with a clear sense of mission, as the key to maintaining focus.

Whatever the possible risks, Compartamos's commercialisation allowed massive expansion. In 2000, after 10 years, it had just 64,000 clients. After another 12 years or so with access to capital markets, the bank now provides loans and micro-insurance to a total of 2.5m clients in Mexico and, through subsidiaries, in Guatemala and Peru, making it Latin America's largest microfinance bank (MFB).

This activity, however, made the narrow utility of micro-credit clear. "A lot of microfinance providers," says Mr Danel, "start with lending. But at a certain point they realise that inclusion is about providing a range of products," especially savings, which he calls the "the pre-eminent financial-inclusion product." A leading driver behind Compartamos obtaining a banking licence was the legal capacity it gave to take deposits. Now, the bank is running a pilot project to offer this service, which it expects to roll out across Mexico soon. Doing so, however, will entail significant change, in particular creating a large physical network of locations where savers can make deposits and withdrawals. In the four Mexican states covered by the pilot, this already involves 3,200 outlets working with Compartamos's banking correspondent subsidiary, Yastas.

Beyond its pragmatic evolution to meet the challenges of financial inclusion, Mr Danel sees Compartamos as having a wider impact in Mexico: "Twenty years ago, if you wanted a working capital loan, you had to come to us. Today, there are [many] more providers. An industry has been born. This poses challenges but is much better for clients."

A mobile service finds a new route to financial inclusion

The growth of mobile-payment services run by telecommunications companies has done much to widen financial-service provision at the bottom of the pyramid. The best known of these, by far, is Kenya's M-Pesa.

A joint project of Vodafone and Safaricom, registered M-Pesa users put money into their accounts via local agents and can then send funds electronically to other individuals with accounts—such as remittances to family members—or pay businesses registered with the service. The numbers demonstrate M-Pesa's dramatic success. Since launching in 2007, the service has registered 15.2m members among Kenya's 35m-strong adult population, around two-thirds of whom are regular users and many of whom are otherwise unbanked. Total transactions are around US$1bn per month, or a little under one-third of national GDP. While transforming how Kenyans do business, the telecoms firms have built a substantial asset: Safaricom earns more from M-Pesa than from SMS and data traffic combined, while the service provides the bulk of Vodafone's Kenyan income.

Underneath the technology, M-Pesa's development has parallels with that of micro-saving providers. One is the creation of a widely dispersed physical network, where clients can easily make deposits or withdrawals. "Few mobile initiatives across the world reach scale because of the effort needed in human capital across the country," says Michael Joseph, managing director of mobile money at Vodafone and former CEO at Safaricom, who oversaw M-Pesa's creation. Accordingly, he says, one key to M-Pesa's success has been substantial investment, "to create a huge distribution network of mostly little mom and pop stores. It is ubiquitous: people don't have to go more than 300 metres."

Another element of success, Mr Joseph says, has been "to focus clearly on the initial customer of M-Pesa, the one at the bottom of the pyramid." This has driven change almost as thorough- going as that of Compartamos. M-Pesa was always meant to enhance financial inclusion, but the specific form

this took in its pilot stage was to ease payments between existing micro-lenders and their clients. Users, however, quickly adapted the system to make a much wider range of payments, few of which involved micro-credit. By its formal launch, M-Pesa was recast as a payment service, especially for urban workers to send remittances to rural relatives. Companies quickly realised the benefits of accepting payments this way, and even charities now regularly publish M-Pesa account details when soliciting donations.

Users have pushed the system further. One in six Kenyan users of M-Pesa or a competing mobile-payment service, for example, store money in their accounts while travelling, for reasons of security. Now M-Pesa is building on this sort of activity. A new micro-savings and loan facility created in the last year, M-Kesho, allows people, at no cost, to put amounts as small as a penny into regulated, interest-earning savings accounts. After saving for 90 days, customers can apply for short-term micro-loans. Within six months of launch, Mr Joseph reports, 1.4m people have begun saving. "This is a revolution in Kenya," he says. "To get a loan there, you normally have to travel and fill in a form. This has no forms at all."

In following its customers, M-Pesa, like micro-credit providers, has broadened services in pursuit of greater financial inclusion. It, too, is affecting the wider market. Mr Joseph notes that banks have increasingly integrated into M-Pesa because it provides cheaper payment services than they can. More importantly, he adds, "[Kenya's] banks have seen that there is business to be done at the bottom of pyramid."

A bank widens its client base through partnership

The Reserve Bank of India (RBI, the central bank) has been pushing the country's financial services sector to include an estimated 700m unbanked citizens. Using regulation and exhortation, it is encouraging banks to open one-quarter of all new branches in currently unserved rural villages. However, for the bank of Industrial Credit and Investment Corporation of India (ICICI), India's largest private bank, activity in this field is quite familiar. As early as 2001, its purchase of Bank of Madura gave it a microfinance operation in Tamil Nadu. Similarly, its rural-expansion strategy, which overcame a rocky start, began in 2005.

According to Rajiv Sabharwal, board member of ICICI Bank responsible for, among other things, inclusive and rural banking, the bank's strategy focuses on "creating reach and providing need-based credit and savings products." In order to do this, the hallmark of ICICI's financial-inclusion efforts is breadth, of both channel and offering. It is rapidly building up its own infrastructure by opening so-called Gramin banks: rural branches in previously unbanked villages. These offer agricultural loans, other business loans and basic savings accounts. Since 2010, it has opened up 350 Gramin banks, bringing its total to 656, or around one in five of all its branches, and it expects to open another 150 by March 2014.

More recently, the company has begun deploying what it calls "branches on wheels": fully equipped mobile branches with two employees each, which can provide the same range of services as Gramin banks. These cover a circuit, so that they are present in the same location at the same times throughout the week, allowing the same vehicle to service several villages.

The bank has also engaged in extensive partnership activities. As Mr Sabharwal explains, despite his sector's strengths, and "considering the extent of the task at hand, collaborative efforts are required to ensure the success of financial inclusion." Rather than expanding its own microfinance operations, since 2007 ICICI's Microfinance Practice has co-operated with existing MFIs. By doing so, it has built up the capacity of both. Under the bank's partnership model, MFIs identify and recommend clients, which the bank then finances directly. The MFI oversees loan repayment and the two institutions share the risk. The bank also participates in microfinance by securitising certain MFI loan portfolios as a whole. Finally, ICICI does fund certain female borrowers directly through self-help group-bank linkages. These strategies have allowed ICICI to provide

loans to 3.5m clients.

For the savings of clients at the bottom of the pyramid, the bank has another model. It has partnered with 29 "business correspondents" (some are businesses, but most NGOs). Correspondents provide rural clients with "doorstep access" to interest-bearing bank micro-savings accounts through individuals, called *bandhus*. Using technology developed by the bank, the *bandhus* take biometric and electronic account devices into the field, with which they can identify clients and then carry out account transactions with them directly. Collectively, Mr Sabharwal reports, through new branches and business correspondents, ICICI has opened 16m basic savings accounts.

Finally, ICICI is tapping into mobile payments through existing providers. Earlier this year, it and Vodafone rolled out an M-Pesa service in Mumbai, Delhi, Kolkata, West Bengal, Bihar, Rajasthan and Uttar Pradesh. This is in addition to a similar mobile-money service launched in February 2013 in Chennai with Aircel and one with Tata Teleservices in Mumbai and Delhi, announced in December 2012.

ICICI's experience shows that traditional brick and mortar bank branches are relevant to financial inclusion. They cannot, however, be the whole story. Reaching the unbanked, says Mr Sabharwal, involves substantial product and service delivery and product customisation, while delivering high standards of customer service. The effort will not only help rural development; it should be good for ICICI's bottom line. "Over the longer term, the bank believes that rural India provides significant business opportunities," he concludes.

A future of convergence?

These three cases indicate that, whatever their roots, organisations that successfully enhance financial inclusion will share certain attributes. This convergence is already happening, says Ms Rhyne. "It is strongest in Latin America, where banks have probably gone most heavily into microfinance and microfinance organisations have become banks." With payment services providing savings, loans and insurance, the blurring of boundaries will only increase.

Common features will include a range of low-cost financial-services offerings and a similar infrastructure for customer interaction. The emerging model also has two seemingly contradictory elements, both of which are essential: easily accessible mobile-based technology, and a widespread physical presence in customers' communities, with numerous agents or employees.

Achieving these goals presents distinct challenges for different types of organisations. Banks will frequently require cultural change. In Mr Joseph's experience, they lack "the mindset and cost structures that let them get into financial inclusion. The way they think makes it very difficult to do transactions at a low price." The solution may not be wholesale change so much as developing specialist capabilities. Sergio Navajas, senior specialist in the Access to Finance Unit at the Multilateral Investment Fund, part of the Inter-American Development Bank Group, notes that the most successful banks in this area "understand that, with this type of client, you need a different set-up." As a result, he says, these lenders have set up departments separate from the rest of the institution to focus on these clients.

MFIs understand their clientele well, but are entering into other, unfamiliar areas. Ms Rhyne says they "have a lot to learn in terms of being better at being a bank—things like offering fee-based services, the facility to pay bills, and other kinds of money-transfer services." They also may require patience. Mr Navajas notes that, while expanding into savings is a welcome development, this should not happen "before the [microfinance] institution is strong enough." These organisations could also require their own cultural shift. Whenever other players attempt to serve the bottom of the pyramid, Mr Danel sees "a tendency among social providers to be gatekeepers, saying that those without social goals should not be competing. Clients are looking for good products at good value. They don't mind if it comes from a social company or not."

The convergence, however, will probably not be total. M-Pesa, says Mr Joseph, is unlikely to become a fully fledged bank because "it is not our core area." Each company will bring distinct strengths. Mr Navajas has noticed, for example, that traditional banks initially tend to do better at savings products than micro-credit ones. Rather than reinvent the wheel, companies will work together to combine their strengths in ways similar to ICICI today. The most likely market outcome is an ecosystem of firms that sometimes compete and sometimes co-operate, depending on the particular service.

What role will remain for microfinance social enterprises and NGOs in this market, which has grown in their wake? They are not about to disappear, says Ms Rhyne. "One function of the social sector," she says "has been to develop the frontier." Once, this was the unbanked as a whole; now it tends to be in remote, agricultural areas, among the very poor or with groups facing discrimination. Eventually, she hopes, the frontier will expand further and these too will be part of the population served by the new breed of financial-services providers.

Conclusion

A diverse range of providers, drawn by market need and opportunity, are creating a financial services sector aimed at the bottom of the economic pyramid. From starting points as different as NGOs, banks and telecoms firms, they are developing the characteristics—often very similar—to serve these customers. Rather than becoming identical, these providers will likely create an economic ecosystem where competitive advantage will define distinct roles.

Microscope country profiles

The following section provides a brief profile of the microfinance business environment and indicates key changes since last year for each of the 55 countries in this study. Countries are listed in alphabetical order and are organised by region. Each country profile is presented in two parts: the first section contains a brief background on the country's microfinance industry, and the second section outlines key developments since last year. Please note that the information selected for the country profiles is meant to be a high-level overview; it is not intended to provide a complete outline of the legal environment or represent a comprehensive account of all recent activity. For more in-depth analysis and regulatory detail, please visit the "country profile" tab of the Excel model, available free of charge at www.eiu.com/microscope2013; www.fomin.org; www.caf.com/es/mipyme; www.centerforfinancialinclusion.org and www.citimicrofinance.com. ■

East and South Asia

Bangladesh

Key characteristics of the microfinance business environment:

- The microfinance industry in Bangladesh is among the more mature (over three decades old) within the region. Microfinance in Bangladesh is not limited to the provision of financial services, but includes livelihood services, which range from poultry-raising to education. The market continues to grow, despite exceptionally high market penetration.
- Bangladesh is home to three of the world's largest providers of microfinance: Grameen Bank, BRAC and ASA. The industry grew significantly in 2002-07, but the top three MFIs have since deliberately scaled back growth to a more sustainable level. The top ten microfinance institutions (MFIs) account for nearly 90% of total savings and more than four-fifths of total loans. The availability of commercial capital will be critical to the continued growth of the industry, in particular of tier-two MFIs.
- The Microcredit Regulatory Authority (MRA) regulates non-governmental organisations (NGO)-MFIs registered under five different laws. Although the MRA Act also covers co-operatives, it has not sought to include these within its purview. Banks are regulated by Bangladesh Bank (the central bank). Grameen Bank, the country's largest MFI, is regulated by a separate law, which established the Grameen Bank Project as a specialised bank in 1983.
- The MRA licenses NGO-MFIs. In January 2011, it issued a detailed set of regulations for the operation of micro-credit. There is an interest-rate cap of 27% (on a declining-balance basis) that can be charged on micro-credit loans.
- Apart from Grameen Bank, under current regulations MFIs cannot mobilise public deposits. This splits the market three ways: Grameen Bank (which has more savers than borrowers); microfinance providers such as BRAC and ASA, which depend heavily on finance from commercial banks; and MFIs that depend on loans from the donor-backed wholesale lender, PKSF.
- The lack of effective credit bureaus and a ban on deposit-taking by MFIs has restricted growth of the industry. At the same time, a high unmet demand for savings in rural areas persists. This has led to the emergence of unregulated, illegal savings institutions. Both the MRA and the government have recently stepped up efforts to curb these illegal institutions.

Key changes and impacts since last year:

- The long-running issues between the government and Grameen Bank, the institution founded by micro-credit pioneer, Muhammad Yunus, is unlikely to be resolved before the national elections at end-2013, nor is it likely to have an impact on the operation of the bank. The government, which owns only 3% of the bank, has been mulling over a break-up of Grameen Bank, in a bid to gain control of the institution. There appears to be no legal basis for such a move and practitioners do not believe that the political battle between the Awami League government and Mr Yunus will impact the industry.
- There have been no regulatory changes since the MRA published a full body of legislation in January 2011. The MRA has issued licences for 700 NGO-MFIs covering all the major providers who choose to operate under this legal form. An interest-rate cap of 27% has remained in place. The cap and general cost pressures have forced MFIs to take steps to become more efficient and to improve the quality of their portfolio. Many MFIs have done so by increasing their loan size, a development that practitioners say threatens to reduce financial access of the poor.
- In February 2013, the government passed the Co-operative Societies (Amendment) Bill 2012. The Law is part of an effort to regulate more strictly predatory savings institutions. Policymakers are keenly aware of the risks of ignoring these loosely regulated institutions following the collapse of a US$400m ponzi savings scheme in 2012.

- In June 2013, Bangladesh Bank published draft guidelines on agent banking for banks. The guidelines establish a regulatory framework for agent banking services. Under the new rules, banks are allowed to use NGO-MFIs registered with the MRA as bank agents. In practice, no MFI has been allowed to offer money-transfer services through mobile phones.
- Bangladesh's bank-led mobile banking model has facilitated greater use of mobile technology. Around 5m people are using mobile-banking services. The central bank has granted 25 banks permission to operate mobile-banking services. As of mid-2013, 17 banks were providing services through 70,000 outlets, with around 450,000 transactions per day.

Cambodia

Key characteristics of the microfinance business environment:

- Licensing, regulation and supervision of microfinance service providers is conducted by the National Bank of Cambodia (NBC, the central bank) under the Law on Banking and Financial Institutions of 1999 (LBFI). The regulatory framework permits regulated micro-credit service providers to operate as limited companies, of which there are two types: banks and non-bank microfinance institutions (MFIs). Pursuant to the LBFI, the NBC issued a prakas (regulation) on the licensing and registration of specialised microfinance service providers in 2000. Based on this regulation, the vast majority of LLCs providing microfinance services take the form of non-bank microfinance institutions (designated MFIs by the regulator), which are also regulated by the NBC.
- The legal framework sets conditions for regulation versus supervision, based on size. Institutions meeting certain criteria as large MFI must obtain a licence from the NBC and become regulated. Medium-sized institutions must register with the NBC; those that are smaller need not. Seven MFIs have licences to accept deposits.
- National requirements are in place for companies to implement International Financial Reporting Standards (IFRS), but the Ministry of Economy and Finance has not prioritised implementation for microfinance-service providers, giving them a deadline of 2016. The NBC mandates that all MFIs under its supervision use its prescribed chart of accounts, which contains gaps in comparison to IFRS.
- The Ministry of Economy and Finance regulates telecommunication activities, but there are as yet no regulations for mobile banking. According to local experts, there are three or four MFIs in different stages of developing mobile-banking capabilities. So far, agent banking utilising innovative technologies has expanded slowly in Cambodia.

Key changes and impacts since last year:

- The ease of setting up a regulated institution is evident in the growing number of licensed MFIs, which totalled 37 in July 2013, up from 32 at the end of 2011. However, the NBC has increasingly granted MFI licences to institutions lending to small and medium-sized enterprises (SMEs), rather than strictly to those offering microfinance. A review of SME lending regulations is underway, and a re-licensing of institutions is planned for 2013-14.
- In 2013 the NBC significantly raised annual licensing fees for regulated MFIs. The new fees apply to head offices and branches, raising operating costs for MFIs.
- As an alternative to lengthy court proceedings to resolve commercial disputes, the National Arbitration Centre (NAC) was officially launched in March 2013. The private sector largely led the development of the body, with the support of the International Finance Corporation (IFC). Still in its nascent stage, however, jurisdiction of the NAC vis-à-vis Cambodian courts remains unclear. Also uncertain is how the NAC will enforce its arbitral awards.
- The Credit Bureau of Cambodia (CBC) was launched in March 2012 to tackle over-indebtedness resulting from multiple borrowings and market saturation (especially in urban areas). As of June 2012 the CBC had recorded 80% of MFI loans and 90% of bank loans.

China

Key characteristics of the microfinance business environment:

- Although the provision of rural credit is rising as a priority for the government, microfinance is in its infancy in China, and includes a variety of institutions: 6,700 micro-credit companies (MCCs), credit-only, which offer afew small loans; 800 village and township banks (VTBs), which operate as small banks; rural credit co-operatives (RCCs), rural commercial banks (RCBs) and rural co-operative banks (RBs), 2,411 in total, which offer rural financial services; downscaled commercial banks, with broad outreach; and unregulated institutions, such as non-governmental organisations (NGOs) and Village Co-operative Funds (VCFs).
- The regulatory capacities of the People's Bank of China (PBC, the central bank) and the China Banking Regulatory Commission (CBRC) are relatively strong, so the institutions that fall under their authority are well regulated. Resources for regulating MFIs are limited, compared with those for the main banking sector. MCCs are supervised by provincial-government financial offices, whose capacity are much weaker and vary among regions. NGOs and VCFs, which compose a small part of the total microfinance industry, are subject to little oversight, but cannot accept deposits and represent no systemic risk.
- Regulations for MCCs provide significant geographical and ownership limitations, which inhibit these institutions from achieving significant economies of scope or scale. Consequently, competition is limited. Commercial banks are encouraged to downscale into finance for small and medium-sized enterprises (SMEs), but there is limited uptake owing to worries over taking on perceived greater risk for smaller rewards. The government places greater emphasis on expanding rural credit coverage, through setting up more CBRC-regulated MFIs in unbanked areas.
- Standards of transparency with regard to fees and interest rates vary substantially between MFIs in China, and there is little industry-wide guidance on this issue. There are no requirements for standardised disclosure in product advertisements with regard to non-interest costs and fees, annual effective rates, or to distinguish between flat and declining rates. However, generally, MFIs regulated by the CBRC are transparent about their loans and fees.

Key changes and impacts since last year:

- The government is encouraging provision of rural lending, through the wider establishment of regulated entities. There is a drive to boost the number of VTBs in rural areas, although these do not necessarily make micro-loans. The number has risen to 800 over the past year. There has been consolidation, as more RCCs were converted into RCBs.
- The CBRC is making a serious effort to improve accounting standards at regulated institutions through consolidation and reforms.
- The number of MCCs rose dramatically in 2012, but the increase in the number of institutions does not necessarily translate into increased micro-lending—the majority of these are involved in small-business lending, not rural microfinance in the traditional sense.
- Regulators appeared to take a relatively accommodative approach to new innovations in microfinance, particularly in peer-to-peer lending and through e-commerce platforms, which hold promise in boosting provision of micro-loans across a larger swathe of the country. Mobile-banking activities are at pilot stage and policy is not yet prohibitive for these activities. Regulators do not appear to be loosening regulatory restrictions on NGOs, however.

India

Key characteristics of the microfinance business environment:

- The Reserve Bank of India (RBI, the central bank) regulates two types of institutions that engage in microfinance activities: banks and non-bank financial companies (NBFC)-MFIs. Following

the crisis in Andhra Pradesh (AP) in 2011, the RBI has put in place regulatory changes that helped reassure market participants and instigated rapid growth in total loans in 2012. The RBI recognises that its role is not only to regulate, but also to develop microfinance and the political support of microfinance by the national government. It should be noted that most institutions that are conducting microfinance activities in India are not banks or NBFCs and therefore are not under the regulation of the RBI.

- The financing of Indian microfinance is dominated by commercial debt. MFIs have been paying for this heavy reliance on commercial bank funds. Somewhat counter-intuitively, total loan growth has been around 30% and there has been an equal rise in the equity flows funding NBFC-MFIs. There has been a shift from a focus on quantity (rapid loan growth) to quality (more sustainable loan growth).
- Credit bureaus have started to make a difference in spotting clients with multiple loans. However, they still constitute an imperfect tool to deal with the problem of over-indebtedness, because of the many informal sources of finance that are not covered by the credit bureaus.
- The regulatory framework provides for a dispute-resolution system in the microfinance industry. There has been a vast improvement in client protection following the AP crisis and new regulations that resulted from the crisis.

Key changes and impacts since last year:

- Microfinance total loan growth is estimated to have risen by around 30% year on year in fiscal 2012/13 (April-March). There is increasing evidence of the flow of bank funding returning to the microfinance industry (particularly outside AP). There has been a surge in equity funding and, at an estimated 1% of total loans, the portfolio at risk is small. This positive development is somewhat counterintuitive, because it comes only two years after a major crisis in AP, the country's biggest MF market, and a significant slowdown of the Indian economy.
- The RBI's overall regulatory approach has been flexible and pragmatic. Following the removal of a 26% interest-rate cap in August 2012, the RBI granted NBFC-MFIs further breathing space when it increased existing margin caps in May 2013 (fixing the margin cap for all NBFCs, irrespective of size, at 12% to March 31st 2014). However, with effect from April 1st 2014, margin caps may not exceed 10% for large MFIs and 12% for the others. The margin caps remain controversial, with some investors saying that they unnecessarily curtail private equity flows into microfinance. The operating margin cap in the medium term is expected to put significant pressure on MFIs to reduce operational costs.
- The new 40% Priority Sector Guidelines guidelines for foreign banks with over 20 branches is expected to increase bank funding to MFIs over the near to medium term. Following an RBI announcement in February 2013, large NBFCs are now allowed to submit applications for banking licences. Large MFIs are able to apply, provided they have minimum capital of Rs5bn (US$90m) and at least 25% of their branches are in rural areas.
- The proposed Microfinance Bill has been pending in parliament since 2007. Among other things, the Microfinance Institutions (Development and Regulation) Bill could open up deposit-taking restrictions on non-governmental organisation (NGO)-MFIs, but any liberalisation is likely to be limited and closely supervised. The Bill has been completely recast and, if adopted, will have a profound impact on the microfinance industry, but its fate is uncertain. Parliamentary elections are due in 2014 and passage of the Bill is not a priority. It is seen as far superior to the 2007 version and reflects the lessons from the AP crisis. Some expect the Bill to be recast again, in case it is not passed in the current legislature.

Indonesia

Key characteristics of the microfinance business environment:

- Indonesia's microfinance industry is among the largest in the world, with over 50,000 microfinance institutions (MFIs), of which the majority are

characterised by low growth in outreach and inefficient systems. They cite a lack of access to affordable capital as their main constraint. There is no legal definition of microfinance, but Bank Indonesia (BI, the central bank) defines micro-credit as loans of up to Rs50m (US$5,500). The existence of large-scale subsidised programmes and institutions puts private MFIs at a disadvantage. The biggest programmes are the World Bank-funded National Programme for Community Empowerment (PNPM) and the so-called revolving fund agency (LPDB) set up by the Ministry of Co-operatives, Finance and Industry. Bank Danamon is one of the largest banks involved in microfinance with a portfolio of small traders and micro-entrepreneurs, worth around US$1bn.

- The market for microfinance is highly fragmented and demand for micro-loans outstrips supply. Around one-fifth of Indonesia's population of 234m lacks access to financial services. High demand has allowed private operators to thrive, despite the state's heavy involvement in rural finance. The private bank with the fastest-growing MF unit is Bank Tabungan PensiunanNasional (BTPN).
- Banks and other financial institutions are free to set interest rates on loans; they do not face excessive documentation and the capital-adequacy ratios are not excessively burdensome.
- The main informal providers of micro-credit are co-operatives. Co-operatives must register with the Ministry of Co-operatives. There is a capital requirement of Rs100m to establish a savings and loan co-operative (S&L). Co-operatives are not closely regulated or supervised and capacity constrains them from playing a greater role in providing MF.
- The prudential standards, know-your-client (KYC) principles and anti-money laundering (AML) requirements faced by microfinance banks (MFBs) are the same as those faced by all banks in the country. Non-formal MFIs are not subject to these standards, have very little oversight and face few restrictions on deposit taking.
- BI has regulations for e-money. However, an Rs5m limit on e-cards and mobile phones has severely limited the use of e-money. Mobile and electronic banking has spread, but is still limited.
- There is no effective dispute-resolution mechanism for microfinance borrowers in place. However, there have been a number of high-profile legal cases involving credit card holders and issuing banks. The cases have contributed to greater public awareness of consumer rights and resulted in the creation of a Consumer Complaints Unit located within BI, but the Unit does not cover MF clients. It deals with complaints from consumers of commercial banks and, to a much lesser extent, from rural banks.

Key changes and impacts since last year:

- In January 2013, parliament passed a long-pending Microfinance Institutions Bill with a view to providing legal certainty for microfinance providers (LKM). The new Bill establishes that a LKM must take the legal form of either a Perseroan Terbatas (PT, limited liability company) or koperasi (co-operative). In the former case, 60% of the shares must be owned by a regional government or region-owned company. The remaining 40% may be owned by either an Indonesian national or a co-operative. Non-governmental organisation-microfinance institutions (NGO-MFIs) and informal providers of microfinance feel that the Bill does not address their needs.
- There has continued to be interest from foreign investors in entering MF in Indonesia. The routes vary from investment in private providers, such as BTPN, to establishing venture-capital firms. BPRs are increasingly partnering up with organisations such as Bank Andara, a wholesale bank for MFIs, in order to bring more services to their customers, such as clearing cheques and access to liquidity lines. The new Otoritas Jasa Keuangan (OJK, the financial services authority) is slowly taking over regulatory functions from BI. Non-bank financial companies (NBFCs) are already being supervised by the OJK; banks are scheduled to be supervised by the OJK from 2014. The OJK is staffed by people from BI and the Finance Ministry. It is still too early to say whether the OJK's regulatory capacity will compare favourably with the previous institutional set-up.

- The regulatory and supervisory environment for microfinance remains in transition. BI has developed draft regulations for private-credit bureaus (PCBs), but there is significant political opposition to surrendering BI's monopoly on credit information to a private entity.
- Regarding transparency in pricing, banks are required to publish clear prime lending rates (those offered to their best customers and institutions, accounting for a large share of the total loan portfolio)that comply with regulations.
- The issuance of guidelines on branchless banking and agents by BI is still pending. BI has granted a handful of commercial banks the right to conduct pilot projects on agency banking. The findings of the pilots are expected to feed into guidelines that would provide a framework for financial transactions through agents and allow financial institutions (FIs) to make better use of existing technologies.

Mongolia

Key characteristics of the microfinance business environment:

- The Bank of Mongolia (BOM, the central bank), which is responsible for regulating commercial banks and microfinance institutions (MFIs), and the Financial Regulatory Commission (FRC), which is responsible for regulating non-bank financial institutions (NBFIs), such as credit unions (CUs), act as the key regulating institutions in the country. Consequently, all MFIs are affected equally by regulations set by the BOM. The BOM is generally viewed as a competent regulator, but the FRC is seen as ineffective, lacking funding, equipment and staff. Regulations do not make it difficult for MFIs to do business in Mongolia.
- Commercial banks—most notably Khan Bank and XacBank—are the main providers of microfinance products in Mongolia. Khan Bank, for instance, maintains the lion's share of the microfinance market, with over 300,000 active borrowers. Smaller MFIs, such as Credit Mongol, have around 2,000 active borrowers.
- The Credit Information Bureau LLC (CIC) was established in April 2009 and has 18 shareholders from the financial sector, including the main commercial banks and the main sources of microfinance. The CIC aims to provide information about current and prospective borrowers to all sources of micro-credit in Mongolia, but its technological capabilities are still in their infancy. Along with the CIC, the BOM maintains a Credit Information System, which serves as a database of the borrowers from commercial banks and a small number of NBFIs. Data collection has been improved, both in terms of scope of information collected and coverage, but it remains incomplete.
- Most microfinance lending continues to occur through traditional channels, such as bank branches and automated teller machines (ATMs). Larger banks, such as Khan Bank and XacBank, however, are developing their mobile-banking technology services to better enable clients to access financial services from anywhere in the country.

Key changes and impacts since last year:

- The government has made a strong push to promote financial-sector lending to small and medium-sized enterprise (SMEs). An SME Credit Program channels funds through banks to SMEs that have been screened by provincial councils, and was significantly ramped up in 2011. A Credit Guarantee Fund provides guarantees for loans by banks and NBFIs to SMEs up to an amount of Tg100m (aroundUS$73,000) per borrower. These may distort lending patterns in ways that affect the microfinance industry.
- The Mongolian legal system provides several avenues for dispute resolution between a borrower and the lending institution, but there are many weaknesses within the dispute-resolution process. Dispute resolution, while poorly developed, does not appear to pose significant problems for customers or MFIs. According to numerous experts, Mongolian fiduciary laws are comprehensive and civil courts are effective in addressing disputes between MFIs and customers when they arise.
- Most Mongolian businesses and financial

institutions (FIs) regularly issue financial statements based on local accounting standards. The biggest players in the microfinance industry, notably commercial banks like XacBank and Khan Bank, as well as MFIs backed by major international groups, tend to have relatively sound accounting. Nevertheless, there is a dire need for greater transparency and more effective use of professional accountants in many smaller MFIs, and greater adherence to International Accounting Standards (IAS) is still necessary.

- ATMs and branches of both major and minor MFIs continue to expand throughout the country, although the majority of ATMs and branches are located within the city centres. E-banking is expanding in line with the spread of more sophisticated mobile phones.

Nepal

Key characteristics of the microfinance business environment:

- Nepal's microfinance market is highly fragmented, with very few players of significant size, reflecting Nepal's geography. Microfinance services are ubiquitous in the Terai region along the border with India and along the country's main highways, but thinly spread or absent in Nepal's remote regions.
- Nepal Rastra Bank (NRB, the central bank) regulates commercial banks, development banks, finance companies and microfinance development banks (MFDBs). It considers Nepal overbanked and has stopped licensing banks with the exception of microfinance development banks (MFDBs). NRB gives priority to those MFDBs willing to offer services in remote areas. Around 40 licence applications are pending with NRB; two have been approved since 2011. The IMF has recommended that a 2011 moratorium on banking licences be extended to MFDBs.
- The main formal providers are upscaled non-governmental organisations (NGOs) and regional rural development banks (RRDBs). As of July 2013, there were 26 of these institutions in operation. RRDBs were formerly state-run, but four out of five are now privately owned. The largest government player is the Agricultural Development Bank (ADB), which provides wholesale funds to related standalone co-operatives (Small Farmer Co-operatives).
- As of June 2012, 33 financial intermediary NGOs (FINGOs) were in operation and are currently registered with the central bank. FINGOS and MFDBs can take deposits from their members. FINGOs also have a limited banking licence, which allows them to borrow from commercial banks for client-lending purposes. These borrowings usually fall under the mandatory deprived-sector lending portfolio of commercial banks.
- Public and private institutions are regulated identically. Although there are no interest-rate restrictions in Nepal, the role of government institutions has kept lending rates low, at 18-24%.

Key changes and impacts since last year:

- A moratorium on all A, B and C-class financial institutions (FIs) has led to a surge in applications for MFIs (D-class). NRB is processing applications for new MFIs, but faces pressure from existing licence holders.
- NRB has been trying to channel more money into microfinance by raising lending ceilings for "deprived-sector lending" for A, B and C-class FIs by 50 basis points in its monetary policy for fiscal year 2011/12. The central bank has acknowledged that access to microfinance remains "very poor" in Nepal's mid-Western and far Western regions. It has improved incentives for providers of MF to enter these areas, but with limited success.
- In its monetary policy for fiscal year 2011/12, NRB said that the establishment of a Micro Finance Authority for regulation, inspection and supervision of MFIs would be given "utmost priority". The Microfinance Act, however, under which such a separate regulator would be established, has not yet seen the light of day.
- The concept of customer-protection principles is still very poorly developed in Nepal. However, a few MFIs have begun to review their policies. As of July 2013, 12 institutions had endorsed The Smart

Campaign, signalling a commitment to implementing client-protection principles.

- Regulation regarding microfinance might see some improvement following the election of a new government. Elections are now scheduled for November 2013. The thrust of the central bank's policy seems to veer not towards licensing any more MFIs, but to push for MFIs to become MDBs. New licences will be given to organisations focusing on districts that do not have MFIs.
- Over-indebtedness in rural areas has emerged as a key concern. In a bid to mitigate risks and in the absence of a microfinance credit bureau, banks now voluntarily share information about clients seeking loans above Rs30,000 (US$430).
- A microfinance credit bureau that will be part of the existing credit bureau is expected to be established by early 2014. It will be an expansion of the existing Credit Information Bureau (CIB), which monitors A, B and C-class FIs.

Pakistan

Key characteristics of the microfinance business environment:

- Pakistan is one of the few countries in the world that has a separate legal and regulatory framework for microfinance banks (MFBs) and is generally considered to have one of the most enabling environments for microfinance regionally and globally. The framework allows specialised MFBs and commercial banks—the two types of regulated microfinance service providers in Pakistan—to extend a range of microfinance services to poor and low-income customers through various arrangements, including mobilising deposits.
- The 2001 Microfinance Institutions Ordinance of the State Bank of Pakistan (SBP, the central bank) provides a regulatory framework under which MFBs can be established or commercial banks can downscale.
- The SBP has attempted to support the growth of the industry, while maintaining its stability. In 2010, it tightened prudential regulations that apply to MFBs, increasing minimum-capital requirements and, in 2011,the SBP expanded the scope of potential microfinance clients by raising the maximum income level for clients who can qualify for microloans. The SBP does not impose interest-rate caps, but it does limit the size of loans.
- The Microfinance Credit Information Bureau (MF-CIB) was rolled out in June 2012 and 2.2m records (out of a total client base of 2.4m borrowers) have been recorded. The MF-CIB will be a positive registry (with information on all clients with an outstanding loan, rather than just defaulters) and will cover all types of players serving the industry.

Key changes and impacts since last year:

- Two new MFBs were incorporated in the past year (Waseela Microfinance Bank in May 2012 and Advans Pakistan Microfinance Bank in November 2012), which has brought the number of MFBs to 10. Six of those 10 banks are licensed to operate nationwide. The US-based Foundation for International Community Assistance (FINCA) has announced it will also invest, indicating both the supportive regulatory environment and the growth potential of the industry.
- Branchless (agent) banking continues to grow in Pakistan, led by mobile-banking agents. There are now four tie-ups between mobile-phone operators and MFB. Person-to-person transfers, bill payments and airtime top-ups still accounted for the vast majority of transactions, however; savings deposits and withdrawals and loan repayments are a small portion of the market, and, in most cases, such transactions are handled "over the counter", in which the bank agent, not the client, uses the mobile phone.
- New initiatives in pricing transparency and client protection will be launched in 2013, strengthening the social performance of the industry.
- The Securities and Exchange Commission of Pakistan (SECP) issued draft rules for micro-insurance in June 2013, which included not only the basic rules of the segment, but also client-protection requirements.

Philippines

Key characteristics of the microfinance business environment:

- The Bangko Sentralng Pilipinas (BSP, the Central Bank) continues to promote an enabling environment for microfinance, seeing it as one of its key poverty-reduction efforts, and ensuring that there is no direct lending by government agencies (only wholesale lending).
- The industry remains quite fragmented, as there is no one dominant institution type, set of institutions, or network and multiple regulatory and supervision regimes, due to the diversity and scale of the types of service providers.
- Agent banking is quite advanced, including e-wallets, mobile access to bank accounts, and correspondent relationships for micro-insurance, remittances and government to person (G2P).

Key changes and impacts since last year:

- A new law allowing foreign ownership of up to 60% in rural banks was passed in early 2013.
- A new regulation permitting agents to re-sell micro-insurance products was issued. One chain of pawnshops is selling almost 1m policies per month.
- New Central Bank circulars were issued, supporting development of microfinance and rural finance.
- A private-sector initiative by microfinance institutions (MFIs), thrift and rural banks and non-governmental organisations (NGOs), led to the creation of the Microfinance Information Data and Sharing System (MIDAS) in 2012. In mid-2013, membership had grown to 13 MFIs, many of which actively operate in the Visayas or central part of the country. Efforts to expand coverage nationwide to more MFIs are on-going, with the membership applications of 10 MFIs under review. MIDAS is piloting the inclusion of positive borrower information.
- A geospatial mapping product is being conducted, covering all financial-access points across the country.

Sri Lanka

Key characteristics of the microfinance business environment:

- The government is a key player in the delivery of microfinance services. According to the Mahinda Chintana, the 10-year development framework covering the first term of the existing government, around 65% of micro-credit is supplied through the government.
- Sri Lanka-s regulated microfinance industry consists of the Regional Development Bank (RDB); the Samurdhi Bank Societies (SBS); Co-operative Rural Banks (CRBs); the Thrift and Credit-Co-operative Societies of the SANASA network; non-governmental organisation-microfinance institutions (NGO-MFIs); and other financial entities, including commercial banks and finance companies.
- The existing regulatory framework in the microfinance industryis weak and implementation is lax. For example, pawn brokers (Pawn Brokers Ordinance of 1942), moneylenders (Money Lending Ordinance of 1918), and Rotating Savings and Credit Associations (ROSCAs, known as cheetus in Sri Lanka; Cheetu Ordinance of 1935) are all regulated by existing long-standing laws, but implementation and regulation are weak.
- The lack of a cohesive regulatory and supervisory framework for the microfinance industry remains a barrier to development.
- Although MFIs do not deliberately mislead clients, much can be done to improve the way MFIs calculate and communicate prices.

Key changes and impacts since last year:

- The microfinance industryhas been on hold for the past couple of years, awaiting the passage of the Microfinance Act by parliament. Until the Act is passed, unregulated MFIs are operating in a legal vacuum.
- Donor funds to the microfinance industry are diminishing. This is attributed, in part, to the upgrading of Sri Lanka by the World Bank to a lower-middle-income country in late 2010.
- The Finance Business Act passed in 2011 has

had a negative impact on the microfinance industry. Entities not licensed under this Act are prohibited from using the word "finance" in their name, creating a hurdle for new NGOs and entities registering the phrase "microfinance" in their names. The Act also prohibits the mobilisation of public deposits, unless the entity is licensed under the Banking Act or Finance Business Act.There has been a crowding-out of smaller MFIs by finance companies that are now engaged in providing microfinance services.

- Growth in the telecommunications sector has the potential to lower costs and facilitate the delivery of inclusive financial services to MFIs and their clients.

Thailand

Key characteristics of the microfinance business environment:

- Microfinance in Thailand is generally a government-sponsored activity. Thailand's Village Fund (VF), one of the world's largest micro-credit schemes, leaves little room for the development of private-sector provision of microfinance. Non-state providers of microfinance currently cannot compete on cost.
- Rising income levels, a surge in household debt, a state that generally questions non-governmental organisations (NGOs) and an extremely high rate of financial inclusion are the main obstacles to microfinance through new, non-state channels. According to the Bank of Thailand (BoT, the central bank), 96.5% of households have access to financial products.
- The BOT has unveiled a plan to allow new and qualified microfinance service providers to enter the market. The BOT only regulates commercial banks and specialised financial institutions (SFIs) and has no specialised capacity to regulate or supervise MFIs.
- The main providers of microfinance—including two state-run behemoths, the Government Savings Bank and Bank of Agriculture and Agriculture Co-operatives—are regulated by the Ministry of Finance. The SFIs are examined by the BOT and are subject to Basel II regulations, but do not operate on purely commercial principles.
- Under the Civil Procedures Code, an interest-rate ceiling of 15% is in place for lending by unofficial financial institutions (FIs). The central bank has set a ceiling of 28% for combined interest and service charges on all personal consumer loans; there is an interest-rate ceiling of 20% for credit-card loans. Other loans, such as corporate loans, are not subject to caps on interest rates.

Key changes and impacts since last year:

- The provision of microfinance continues to be dominated by government-sponsored schemes, including the VF. In late 2012, the government announced plans to inject US$2.6bn in additional capital into a network of nearly 80,000 village funds. The government aims to raise the number of VF customers to 20m by 2016 (up from from 13m at end-2012). It also wants to make the village funds a "one-stop service to help solve problems at the village level". There are also plans to create a people's bank, a central bank for the VF, and a "nation fund", a state-backed financial vehicle that supplies the funds.
- The primary concern of policymakers is a surge of household debt from 40% of GDP a few years ago to around 70% currently. The BOT has encouraged the expansion of commercial banks into "microfinance". However, commercial banks' MF portfolios remain small. Although, in principle, the BOT and the Finance Ministry favour the entry of new (private) providers of MF, highly subsidised government programmes and stringent regulations preclude the entry of new MFIs or the expansion of existing small private providers of MF.
- The Finance Ministry appears to be concerned about the financial health of 35,000 savings groups (SHGs), thousands of co-operatives and other informal providers of MF, which remain unregulated and whose client bases often overlap. Attempts by the Finance Ministry to create a database of these clients to tackle possible over-indebtedness have made only limited progress.
- The government is pursuing an agenda of

financial inclusion to improve access to finance in poorer regions, particularly in the north-east, a key government stronghold. The administration is likely to expand the use of existing tools of patronage, such as the Bank for Agriculture and Agricultural Co-operatives (BAAC) and the Government Savings Bank (GSB).

- Thailand has one centralised credit bureau system, called the National Credit Bureau (NCB), covering credit information from retail borrowers to small and medium-sized enterprises (SMEs) and corporates. All major FIs, including SFIs, are members of the NCB. Further, the NCB is operating more effectively in comparison to credit bureaus of other East Asian countries.
- A technical-assistance project by the Asian Development Bank (ADB) is currently reviewing the legal, regulatory and supervisory framework for microfinance. One of the key objectives of the three-year project that ends in February 2015 is to strengthen the capacity of the Bureau of Financial Inclusion Policy and Development (FIPD) to conduct its supervisory responsibility.

Vietnam

Key characteristics of the microfinance business environment:

- There is a plan for the development of the microfinance industry until 2020, which was issued in December 2011 by the prime minister, and which will focus on extending the regulatory framework and completing the rules and regulations required to implement the Credit Institutions Law of 2010, the main Law governing all credit providers, including microfinance institutions (MFIs). Building the capacity of MFI staff through training is also a focus of the industry development plan. However, the 2020 plan does not clearly envision new entrants into the market or a more commercial approach (for example, ending interest-rate caps), nor is there any discussion of a change in the role of the big state banks (VBSP and VBARD) in the provision of credit.
- Overall, the provision of financial services to the low-income demographic remains a government-dominated activity as part of both its social-welfare efforts and the Communist Party's political and social stability agenda. This is not likely to change, as a Prime Minister's Decision was issued on March 1st 2012 that states categorically that, "100% State-owned banks and banks where the State holds controlling share...shall be actually the key force of the credit institutions system."
- An improving regulatory framework has allowed two programmes to transform into licensed MFIs, but these may be the exception, rather than the rule, in part because the regulatory requirements are excessively onerous relative to the low capacity of the small, semi-formal programmes to meet them and transform. Moreover, the benefits of transformation (ability to accept deposits and access commercial wholesale funds) are offset by regulatory and reporting requirements and taxes.
- The 2010 Law on Credit Institutions requires regulated MFIs to publish rates and fees. Both regulated and non-regulated MFIs and state-owned providers clearly state interest rates in leaflets and advertisements before disbursing loans. There are still many small, unregulated programmes, however, that are not subject to this Law, and there is no prescription to use declining-balance calculations. MFIs get around interest-rate caps in part by charging "membership fees", which are not included in the interest-rate calculation.
- Few support structures exist for microfinance operators, including technical advisory services, funding, quality and standards protocol, data gathering and consolidation (with common definitions), or auditors with specific MF experience.

Key changes and impacts since last year:

- Multiple efforts by donor agencies are ongoing to try to improve the regulatory framework and supervisory capacity of the State Bank of Vietnam (SBV, the central bank), but the process is slow because of weak capacity inside the SBV, the political weakness of SBV relative to the Women's Union and the Ministry of Finance, which manages

the state-owned banks, and the general fact that microfinance is not a major priority of the SBV.

- The government has begun to promote agent banking, focusing on cards and "cashless" transactions, although this is aimed more at clients of mainstream banks than at MFIs, who do not have the information-system capacity to handle such transactions.
- In November 2007, Private Credit Bureau Investment Joint Stock Company (PCB) was established, with initial charter capital contributed by the top 11 commercial banks in Vietnam. It took two years to find a suitable international partner, and only in March 2013 did the SBV grant the PCB and its partner, CIRF, a licence to operate as a credit bureau. When operational, the new credit bureau will gather positive and negative credit information on individuals and businesses from eligible lenders, which now include 22 financial service providers, but these are commercial lenders and not microfinance service providers. For microfinance clients, the ADB and IFC are said to be planning to provide support for developing a credit bureau, but no action in this area has begun yet. ■

Eastern Europe and Central Asia

Armenia

Key characteristics of the microfinance business environment:

- Supervisory authorities have the capacity to monitor lending activities, including micro-credit, but are more focused on managing risk than credit growth. Lending conditions remain relatively tight as a result.
- Consumer protection in Armenia continues to be among the highest in emerging markets, with a high degree of transparency demanded by authorities on credit pricing.
- Competition for funding is high. Smaller players in micro-lending are struggling to compete with larger banks that target the same client segments.
- Double-digit growth in micro-lending is normal for these markets, with micro-lending representing a high share of total lending.

Key changes and impacts since last year

- According to the World Bank's Doing Business 2013 report, in 2012 Armenia made starting a business easier by establishing a one-stop shop that merged the procedures for name reservation, business registration and obtaining a tax identification number and by allowing for online company registration.
- One new project developed by the Central Bank of Armenia is the design of a "financial-services shopping tool", through which all financial organisations have to send a description of their offerings (credit, deposit, credit cards and insurance).
- Overall economic growth is accelerating, creating more demand for loans among small and medium enterprises (SMEs).
- One of the challenges facing local lenders is the scarcity of local currency in the domestic market and the increased dollarisation of the financial system. Most liquidity is in foreign currency, which has exposed smaller players, including micro-lenders, to foreign-exchange risks. Foreign lending has grown twice as fast as lending in local currency.

Azerbaijan

Key characteristics of the microfinance business environment:

- As of June 2013, micro-lending was composed of around 10 downscaling banks, one specialised microfinance bank, 97 Non-Bank Credit Organizations (NBCOs), and 108 (unregulated) credit unions (CUs).
- The 2009 Law on Non-bank credit organisations (NBCOs) has clarified the regulatory environment for NBCOs. However, although the new Law put NBCOs under the supervision of the Central Bank of the Azerbaijan Republic (CBAR), so far the CBAR has adopted a light-supervision approach.
- Only banks are allowed to take deposits, and obtaining a new banking licences (either greenfield or via M&A) is virtually impossible in the current consolidation phase promoted by the CBAR.

Key changes and impacts since last year:

- In May 2013, the cost of using the Credit Bureau was reduced by 50% and its use has continued to grow across banks and NBCOs. A new private credit bureau (PCB) is expected to launch in 2013 with the support of the IFC.
- A 2012 CBAR regulation increased fivefold the minimum-banking capital requirement, which will come into effect in January 2014.
- The CBAR has issued new rules promoting interest-rate transparency, applicable to both banks and NBCOs. The Azerbaijan Microfinance Association (AMFA) is currently working with the CBAR and regulated micro-lenders to establish a voluntary code of ethical standards for the industry that will include client-protection principles to help them improve their transparency in pricing.
- The country has witnessed moderate progress in alternative delivery channels through a significant

increase in the number of cash-in terminals and points-of-service (POS) and further negotiations on a mobile-banking framework.

Bosnia and Herzegovina

Key characteristics of the microfinance business environment:

- Setting up greenfield microfinance institutions (MFIs) and forming new non-governmental organisations (NGOs) has traditionally been relatively easy in both the Federation of Bosnia and Hercegovina (BiH) and the Republika Srpska (RS), with the bureaucratic burden considered manageable. All microfinance organisations (MFOs) in BiH are regulated. According to legislative and regulatory requirements, MFIs can be established by either three domestic or foreign natural persons, or by one domestic or foreign legal entity.
- There is a difference between the two entities and regulations regarding the microfinance institutions (MFIs), especially related to lending ceilings, which are in place in both jurisdictions. The main regulatory constraint remains the overall size of loans, which is set at a maximum US$6,400 for a microfinance centre (MCF) and a maximum US$32,000 for a micro-credit company(MCC). The difficulty for micro-lenders operating in BiH is related to the challenges of transforming from an MCF to an MCC. While there are difficulties and differences across entities, neither types of MFI have interest-rate caps or unfair public competition.
- Commercial banks have policies and services for e-banking and phone banking that also apply to micro-loan payments. Loan applications still need to be completed at MFI offices, however, and MFIs do not have their own mobile-banking systems or platforms.
- There are two credit bureaus: one is private (LRC Credit Bureau) and the other was established by the Central Bank, the Central Registry of Loans. The state-run credit bureau includes all credit data for the entire country. Financial institutions (FIs) therefore have a good overview of the number of loans and amount of debt carried by a potential client.

Key changes and impacts since last year:

- The dispute-resolution system has been improved since 2011, owing to the fact that, in the RS, there is an ombudsman for financial services. As of mid-2012, the legislation introduced the same function within the respective Banking Agency in BiH.
- In May of 2013, a Bill on client protection passed both parliaments and is currently undergoing a public debate, which is set to last 60 days. This Bill would grant greater client protection for financial services users.
- Amendments to the Law on MCO and the Law on Banks have been proposed to parliament. These are still undergoing parliamentary procedure, and the future implications of these changes are still unknown.

Georgia

Key characteristics of the microfinance business environment:

- Georgia enjoys the most liberal business environment in the Caucasus and Central Asia. Its main source of challenges is geopolitical tensions and domestic politics. These do not directly impact micro-credit development, apart from adding to risk premium and the general economic environment in the country.
- Georgia has distinguished itself by following a relatively balanced regulatory-reform path. It has improved immensely in reducing the complexity and cost of regulatory processes, as well as strengthening legal institutions, and it ranks quite highly in transparency in business regulation.
- Georgia has established a state-of-the-art company-registration system, with widespread availability of one-stop-shops, and a well functioning and efficient electronic company register.

Key changes and impacts since last year

- In 2013 Georgia expanded access to credit by amending its civil code to broaden the range of assets that can be used as collateral.

- Georgia also strengthened its secured transactions system through an amendment to the civil code allowing a security interest to extend to the products, proceeds and replacement of collateral.
- Georgia made significant progress in the number of procedures needed for obtaining credit (as measured by the Doing Business Index, decreasing to two in 2013 (down from nine in 2004).
- In terms of innovations, there is now a new entity, which has registered with the National Bank of Georgia (NBG, the central bank) as a Payment Service Provider (PSP) and intends to launch a mobile-money solution service this year.

Kyrgyz Republic

Key characteristics of the microfinance business environment:

- As of June 30th 2013, the National Bank of the Kyrgyz Republic (NBKR, the central bank) lists 337 micro-credit companies (MCCs), 91 micro-credit agencies (MCAs), five microfinance companies (MFCs) and 189 credit unions (CUs) as microfinance providers. Some commercial banks also offer micro-credits. Low entry barriers have resulted in the proliferation of very small institutions.
- Only MFCs are allowed to take deposits and these are limited to time deposits. The only MFC that was actually taking deposits became a commercial microfinance bank (MFB) in 2012.
- While the regulatory capacity exists in the country, regulation and supervision hamper the development of mobile banking and innovations. The country has not devised a formal dispute-resolution mechanism.

Key changes and impacts since last year:

- The new 2013 wording of the Law on Microfinance Organisations provides for sound client protection. It requires maximum transparency in pricing from microfinance institutions (MFIs).
- Some politicians have seized on fringe sentiments against micro-credits for their political point scoring. The Usury Bill, passed by parliament, but not yet signed by the president, will impose an interest-rate cap on micro-loans, which is likely to impact the country's scores next year.
- The Bill on exchange of credit information, discussed in parliament, may finally help transform the country's sole not-for-profit credit bureau into a fullyfledged commercial venture. Better credit-information exchange is expected to address over-indebtedness.

Tajikistan

Key characteristics of the microfinance business environment:

- As of March 31st 2013, there were 46 micro-lending funds (MLFs), 44 micro-lending organisations (MLOs) and 35 micro-credit deposit organisations (MDOs). Only MDOs are allowed to take deposits, and not all of these actually do so, owing to limited demand for such services.
- The National Bank of Tajikistan (NBT, the central bank) concentrates its supervision on commercial banks and MDOs. Non-deposit-taking microfinance institutions (MFIs) are only lightly supervised.
- The business environment for microfinance is hampered by the embryonic state of thecredit bureau, which was launched in 2013.

Key changes and impacts since last year:

- MFIs are legally required to provide maximum transparency in pricing and are banned from imposing fines for early loan repayments.
- A credit bureau was inaugurated in June 2013, but it is too early to assess its efficiency.
- MFIs are required to set up systems for managing risk and internal control, while MDOs are legally required to establish reserve funds to cover potential losses on loans (MLOs and MLFs may also set up such funds).

Turkey

Key characteristics of the microfinance business environment:

- Provision of microfinance in Turkey is limited compared to potential demand. It is broadly unregulated and marginal to the financial sector. There are no regulations in place or procedures laid down for accounting, transparency or client protection in microfinance specifically.
- The banking sector is strong, well regulated and technologically savvy. Some banks provide small credits to micro-enterprises as part of their regular activities, in line with general banking legislation and supervision; others see microfinance as a matter of corporate social responsibility.
- There are only two dedicated microfinance institutions (MFIs): Maya Microfinance Enterprise and Turkish Grameen Microcredit Programme (TGMP). Both were established a decade ago by non-governmental organisations (NGOs) in rather unique circumstances.
- MFIs are not allowed to accept deposits. The total size of their portfolio remains negligible, drawing little attention from the regulators. The legal environment is perceived as not permitting the entrance of new microfinance players.
- MFIs have high standards of reporting and ethical behaviour towards clients.

Key changes and impacts since last year:

- TGMP remains the larger of the two small MFIs. It continues to seek ways of expanding and diversifying its services. There are plans to transform the TGMP into a bank called Damlabank. Maya is now adopting a methodology more closely in line with the Grameen approach.
- Turkey's offer to host the 2016 Global Microfinance Summit may precipitate the introduction of a new regulatory framework for microfinance. Although this is not currently on the public agenda, promoting microfinance would be in line with the government's social-policy approach.
- The interest of a number of banks in providing microfinance, and in using traditional microfinance methodology for assessing creditworthiness, seems to be increasing. However, funding may be tighter from now on, as Turkey is one of the emerging markets most affected by signals of tighter US monetary policy in May-July 2013. ■

Latin America and the Caribbean

Argentina

Key characteristics of the microfinance business environment:

- There is only a limited framework for microfinance regulation, and most institutions engaged in microfinance are not prudentially regulated.
- Institutions operating in microfinance are not allowed to capture deposits of any type, apart from small credit co-operatives and commercial banks, of which few have even limited engagements in microfinance.
- Non-regulated entities operating in microfinance are not required to publish effective interest rates, and practices across the industry are very uneven.Those institutions that are required to disclose rates are not properly monitored and, therefore, enforcement is weak.
- Most institutions involved in microfinance are small, not commercially sustainable, and rely on philanthropic or government wholesale funding, the latter of which requires them to on-lend to customers at 6% per annum.

Key changes and impacts since last year:

- The Banco Central de la República Argentina (BCRA, the Central Bank) has recognised the importance of the microfinance industry by issuing regulation related to collateral constraints on micro-borrowers and to make mandatory the offering of simplified savings accounts. Encouraging banks to downscale their operations to reach unserved markets is part of the Central Bank's financial-inclusion strategy.
- The BCRA issued a circular requiring all commercial banks to offer a basic deposit account, which signals the potential for more inclusive financial products in the future.
- The Red Argentina de Instituciones de Microcrédito (RADIM, the micro-credit network) is scaling up the usage of INFOCRED, a microfinance credit bureau. RADIM is now providing training services to MFIs out of the network, as of this year.
- The BCRA has increased its supervisory capacity for commercial banks.
- Government ministries supporting social welfare are offering increasing wholesale funding for microfinance.

Bolivia

Key characteristics of the microfinance business environment:

- Bolivia maintains a strong and favourable microfinance regulatory environment, although major changes are expected, following the implementation of the Financial Services Law (see below). Since its creation, the Autoridad de Supervisión del Sistema Financiero (ASFI, the Financial System Supervisory Authority) has pursued a market-based approach towards the microfinance industry, based on considerable technical expertise and professionalism. This is notwithstanding the high turnover of mid-level staff and the widening reach of the Ministry of Economy and Public Finance, under which the ASFI is organised.
- The regulatory framework has permitted commercial banks, Fondos Financieros Privados (FFPs, private financial institutions) and regulated co-operatives to undertake large microfinance operations. NGOs engaged in microfinance (officially termed Instituciones Financieras de Desarrollo; IFDs, Development Finance Institutions) fall under the ASFI's supervisory remit, although the process of fully integrating them into the regulatory framework has lagged, pending the adoption of the new Financial Services Law.
- Local experts have widely noted that regulated microfinance institutions (MFIs) voluntarily follow International Accounting Standards (IAS). Legal requirements are weaker for unregulated institutions, although there is considerable self-regulation among non-governmental organisations

(NGOs) through the Asociación de Instituciones Financieras de Desarrollo (FINRURAL, their industry association), which puts the country ahead of these initiatives within the region.

Key changes and impacts since last year:

- The long-anticipated Financial Services Law was promulgated in early August 2013. The new legislation reflects a greater institution-, rather than activity-specific focus, and features prominent state intervention in the industry. Provisions include interest-rate caps and quotas on loans to the productive sectors and for housing; interest-rate floors for deposits; special requirements for services to rural areas and other potentially market-distorting measures.
- Private MFI providers have expressed reservations of opinion about the proposed measures vis-à-vis their individual operations, whereas a more positive outlook is held by NGOs. Private MFIs will likely face challenges with shrinking margins, higher costs and a controlled operating environment.
- There remains concern that the process of bringing all NGOs and co-operatives under formal supervision may dilute overall governance standards. As governance norms and other terms of regulation for Instituciones Financieras de Desarrollo (IFDs, Development Finance Institutions) have not been clearly established by the ASFI, a two-tiered system could emerge, where laxer standards are in place for IFDs and closed co-operatives than for Fondos Financieros Privados (FFPs, private financial institutions), which, under the draft legislation, will be converted to small and medium-sized enterprise (SME) banks.
- A major tax change has hit the microfinance industry in the form of Supreme Decree No 1288 of July 2012, which adds a 12.5% tax on earnings of regulated financial institutions (FIs) when return-on-equity (ROE) exceeds 13%. The adoption of this tax has limited the profitability of regulated MFIs, resulting in annualised return on equity (ROE) of 16.78% at the end of May 2013, down from 19.83% ayear earlier.

Brazil

Key characteristics of the microfinance business environment:

- The government continues to promote micro-credit to serve social purposes. Public institutions are being mobilised to extend microfinance loans at below market rates, whereby second-tier funds go mainly to four public-sector banks, which cap micro-credit interest rates and also on-lend to other microfinance institutions (MFIs), with final rates to consumers similarly capped. Some of these banks have proved more adept than others in adapting lending practices and methodologies to the microfinance industry.
- Correspondent banking is highly developed, but mobile banking remains weak. Although regulation for simplified accounts exists, the offer of this financial product is practically non-existent.
- The regulatory framework is prudent, although informants complain of excessive documentation requirements. Migration from non-regulated to regulated status has remained difficult. The diversity and complexity of legal status, both regulated and non-regulated, makes for a fragmented microfinance industry.
- Institutions have to inform clients about interest rates and fees in a transparent manner, with good compliance and fairly good norms of self-regulation by non-regulated MFIs. Yet the system still remains complex from the borrower's perspective, even as the government and institutions have emphasised the importance of financial education.

Key changes and impacts since last year:

- It has become more difficult to open and operate non-regulated MFIs, such as Organizações da Sociedade Civil de Interesse (OSCIPs, public-interest organisations) and traditional non-governmental organisations (NGOs) in the view of informants. The latter group must continue to demonstrate that they operate in the public interest in order to set market interest rates, and both types of institution face difficulties in maintaining market share and in accessing second-

tier funding, as they compete with subsidised public institutions charging well below market rates.

- There is a variety of moderately well-functioning dispute-resolution mechanisms for consumer protection. These include a mandatory ombudsman at regulated institutions, state-level consumer-protection offices not specific to microfinance, increased formal adherence to Smart Campaign voluntary norms among MFIs and their networks, and small-claims courts.
- The long-expected positive registry for credit information services is slated to begin functioning on August 1st 2013, owing to implementing regulations approved in October. However, its status—as a voluntary institution subject to the individual consumer's consent to information-sharing—was clouded as of July 2013 by legal challenges.

Chile

Key characteristics of the microfinance business environment:

- Chile's microfinance market is relatively small, in line with its relatively low levels of poverty. It is dominated by large private banks and one large state bank, Banco del Estado. Smaller non-governmental organisations (NGOs) service more rural areas, where large banks have limited reach.
- The microfinance information lacks formal regulation (for example, simplified accounts are not covered in the financial regulation). There is little expertise within the Superintendencia de Bancos e Instituciones Financieras (SBIF, the Supervisor of Banks and Financial Institutions) to regulate it.
- There are interest-rate caps, which are of growing concern to some actors in the microfinance industry.
- Non-regulated micro-credit providers can easily be established, but may not accept deposits.

Key changes and impacts since last year:

- There are growing concerns about interventions directly affecting the microfinance industry. Proposed legislation would lower maximum allowable interest rates, albeit with some mitigating provisions for the microfinance industry. Erasure of default information ordered by a law passed in February 2012 may encourage non-repayment, even if its purpose was to eliminate erroneous or unfair information in DICOM.
- A proposed new law would bring Credit Co-operatives, currently under supervision by the Department of Co-operatives, under SBIF supervision.
- There is a slow and steady increase in consumer protection and transparency, both from the government and the private sector.
- A national financial-inclusion council is under preparation, led by the Minister of Finance, and is expected to contribute to a more conducive environment for microfinance.

Colombia

Key characteristics of the microfinance business environment:

- Most of the large microfinance institutions (MFIs) have converted into a bank or are in the process of becoming regulated under the Superintendencia Financiera (SF, the financial supervisor). There are still a few big players (such as Fundación Mundo Mujer) that are not yet regulated by the SF and that hold a significant part of the segment portfolio. The government, Banco de la República de Colombia (BRC, the central bank) and multilateral organisations have been working with Asomicrofinanzas (the association of MFIs) and directly with MFIs to understand the idiosyncrasies of this market.
- The interest-rate cap is calculated quarterly under a methodology that accounts for microfinance and commercial loans. This yields an artificially low rate. However, regulators and policymakers have increased the rate each quarter, such that it does not constitute a constraint on most institutions offering microfinance products. Additional fees, such as micro, small and medium

enterprises (MSMEs) fees (for example, Comisión MIPYME) are mandatory, but are not included in the calculation of the micro-credit interest rate.

- Colombia passed a comprehensive set of laws in 2009 around client protection that included rules about pricing transparency and dispute resolution. MFIs are required to disclose interest rates and fees, but there does not yet appear to be standardisation in reporting to allow for price comparisons. The SF has a Financial Consumer Advocate Department that handles client-dispute resolution.
- Since 2011 there has been discussion about passing a new law that will demand traditional banks to facilitate the access to micro-credit for unbanked populations. The proposed methodology is to require banks to have a percentage of their portfolio allocated to micro-credit and that at least 50% of that portfolio should focus on the poorest segments of the population. This law has not yet been approved, but it was presented again in March 2013 for new discussions during this legislative period.

Key changes and impacts since last year:

- As the market continues to mature, competition among MFIs for the best clients is intensifying. As they begin to offer more and bigger credits, especially to customers with good credit profiles, over-indebtedness and loan delinquencies are concerns.
- Asomicrofinanzas was launched in 2011. Currently, there are 33 institutional members that represent most of the market: banks, co-operatives, finance companies and non-governmental organisations (NGOs). Asomicrofinanzas is building platforms to collect, manage and disseminate information about the market.
- Dispute-resolution statistics published by the SF's Financial Consumer Advocate Department show that the number of days it takes to receive a final resolution is increasing. As of March 2012, 18% of claims were outstanding for more than 180 days. As of March 2013, that figure had increased to 42% of outstanding claims.

Costa Rica

Key characteristics of the microfinance business environment:

- The microfinance environment in Costa Rica remains underdeveloped and faces strong competition from state-owned banks (most notably, the Banco Nacional de Costa Rica), which participates extensively in micro-credit, but also acts as a second-tier lender. However, requirements to operate in the market (or to upscale) are low.
- There is no specialised vehicle for microfinance, and the majority of microfinance institutions (MFIs) are constituted as non-regulated non-governmental organisations (NGOs). These tend to be small and undercapitalised and have few incentives to formalise or expand, given the limited market opportunities that exist.
- Regulated financial institutions (FIs) in Costa Rica generally uphold high accounting and governance standards, and adherence to IFRS is mandatory. Accounting quality and transparency in non-regulated institutions is mixed, however, with the highest standards arising from those who are part of microfinance networks.
- Transparency in pricing varies, but is generally adequate, as is the level of consumer protection and credit bureau information.

Key changes and impacts since last year:

- A proposed law seeks to expand the options for micro and small firms in offering loan guarantees (including, for example, intangible assets such as receivables), and which could therefore improve access to credit.
- A reform of the Development Banking Law is also under negotiation and could increase the scope for second-tier lending from public banks, but could also increase competition with other MFIs.
- The BancoNacional de Costa Rica and Banco de Costa Rica have been strong early adopters of mobile and Internet banking and establishers of points-of-service (POS), a trend that is likely to continue in the next two to three years with the implementation of these technologies by some MFIs.

- The country's challenging fiscal outlook poses an indirect risk to the microfinance industry if it remains unresolved, as a result of potential reduction in resources (such as second-tier lending), as well as a lack of consumer demand for credit due to macroeconomic uncertainties less than a year before the general election.

Dominican Republic

Key characteristics of the microfinance business environment:

- The microfinance industry lacks a comprehensive regulatory framework. The industry comprises 25 regulated and non-regulated institutions. Three of these are regulated credit and savings banks, two are regulated savings and loans associations (S&Ls), and the rest are unregulated co-operatives and non-governmental organisations (NGOs).
- Forming either regulated or non-regulated MFIs is a transparent and straightforward process; however, there is no legislation that specifically establishes a transformation process, forcing NGOs to create new entities if they want to become regulated. Recent tax hikes have increased the tax take for NGOs, and an upgrading trend is seen as NGOs are forming regulated MFIs in order to become eligible for deposit taking.
- Co-operatives are players in microfinance. Both NGOs and co-operatives, which are non-regulated institutions, practice some sort of self-regulation and adhere to transparency standards.
- Conflict resolution is not well established among MFIs.
- Credit-history information is considered to be accurate, although timeliness is moderate. There is a 42-day information gap that poses challenges to risk assessment in micro-loans. Non-regulated MFIs are not required to report to the credit bureaus.

Key changes and impacts since last year:

- The administration that took power in 2012 has scaled government programmes that directly engage in microfinance. Interest rates are subsidised and non-regulated and regulated MFIs are finding it hard to compete. There are also concerns of an overshoot in non-payment and a setback in the general financial education if these programmes do not provide the proper follow-up to the loans.
- Non-regulated MFIs have experienced high growth rates in the last few years. This segment is reaching a tipping point, where some entities are large, offer a variety of products and are competing with regulated MFIs for clients.
- New taxes on all interest-bearing accounts will serve to deter savings and increase operational costs of MFIs, but a phasing out of a 1% tax on all bank assets will benefit regulated MFIs.
- As the market continues to grow, client education, a fundamental aspect of client protection, is growing in importance. Banco ADOPEM, a leading MFI, has developed innovative programmes to teach people how to assess and select the products that are most appropriate for them.
- In 2013, the Superintendency of Banks passed the Reglamento de Subagente Bancario (banking subagent regulation) for banking agents, which allows regulated financial institutions (FIs) to provide banking services via authorized agents and/or commercial establishments such as hotels, pharmacies, telecommunications offices, small shops and supermarkets, in the absence of a branch or point-of-service (POS).

Ecuador

Key characteristics of the microfinance business environment:

- Ecuador's microfinance industry has gone through a period of substantial change since the current administration implemented the Ley de la Economia Popular y Solidaria (LEPS). The LEPS is now in force and the new Superintendencia de la Economia Popular y Solidaria is operational. A substantial number of co-operatives have registered with the new superintendency, as required by the Law, and will be subject to stricter

regulatory requirements. This important institutional change outlines the importance of the co-operative segment in the financial sector, in particular in the microfinance industry.

- Interviewees see the reforms as broadly positive, as they attempt to bring more formal regulation to a large and diverse industry, the majority of which was previously unsupervised. However, the reforms are still in a period of implementation. There is however uncertainty about the regulations that will apply to current and newly regulated institutions.
- The current administration has over the past year shown a clear preference towards small lenders,as opposed to large banks,in the "popular and social economy". As such, co-operatives have been exempted from a number of recent, burdensome tax reforms on banking-sector profits. This is expected to benefit small lenders.

Key changes and impacts since last year:

- A substantial number of operators have now been brought under the supervision of the new Superintendency. However a high number of small, unregulated lenders are thought to continue to operate. It is unclear, given that the Superintendency is new, as to whether it has the capacity to enforce regulations on the entire industry, particularly in remote rural areas.
- The LEPS sets out conditions for a minimum number of members and a minimum capital base for setting up co-operatives. It also demands that managers meet certain requirements in terms of qualifications and sets out new requirements for reporting and prudential requirements. These requirements are considered high barriers for new entrants to the market and will also be burdensome on smaller operators.
- The authorities implemented reforms to Ecuador's well developed credit bureau system, replacing the existing system of monitoring by private firms with a state-run body. This has prompted concerns over the future quality of information and a loss of expertise, as Equifax, the main credit bureau, has already lost significant technical capacity.

El Salvador

Key characteristics of the microfinance business environment:

- Although there is no formal, legal definition of micro-credit, this has not been a major obstacle to the industry's development to date. The microfinance industry continues to comprise a wide variety of institutions, including banks, co-operatives, credit unions (CUs), non-regulated finance companies and non-governmental organisations (NGOs). Microfinance clients have access to different products and companies without much concern for monopolistic practices. The industry accounts for around 15% of total lending.
- Accounting practices at regulated institutions that provide microfinance are fair and there have been improvements among non-regulated entities. All types of institutions must meet international standards and hire recognised internal and external audit firms, facing significant sanctions if these requirements are not met.
- Credit-bureau coverage of micro-lending transactions is a relative strength and continues to improve, although non-regulated MFIs have limited access to credit information. Client-protection standards vary widely and are often weak.
- The policy framework for financial transactions through agents is poor, but it is gradually improving. There has been some progress in regulating and fomenting services such as remittances transfers, but, in other areas, such as mobile-phone transactions, progress has been much slower.

Key changes and impacts since last year:

- The industry is facing important short and medium-term challenges, in particular after the adoption in late 2012 of a Usury Bill. The Bill, which came into effect in August 2013, sets strict interest-rate limits for all financial institutions (FIs), including regulated and non-regulated microfinance institutions (MFIs). These restrictions could make certain MFIs unprofitable or make lending standards much stricter, hurting the

poorest customers the most. It could weaken the entire microfinance framework and harden the attitudes of microfinance clients, eventually potentially even leading political tensions to rise.

- A more positive development has been the strengthening of the consumer-protection framework, including a new reform that has abolished all commissions related to credit extensions. Although this could add to the financial woes of certain institutions, it guarantees greater transparency in the system, especially since non-regulated MFIs had very few dissemination requirements previously. However, the impact of these measures is yet to be seen.
- Microfinance supervision capacity exists, but its scope and effectiveness are limited, as there is need to give greater regulatory guidance on microfinance for all categories of regulated institution.The changes introduced by the recently approved Usury Bill will require increased capacity from existing institutions to take new tasks (such as verifying the timely and accurate dissemination of interest rates), where they have limited expertise.

Guatemala

Key characteristics of the microfinance business environment:

- Microfinance remains weakly regulated, with an overly broad definition of micro-credit and the absence of specialised rules and methods in such areas as risk evaluation, provisioning and portfolio classification.
- Despite weak or absent regulations, institutions enjoy broad freedom to set interest rates and are relatively free of distorting state interference in market competition in microfinance.
- Client-protection norms remain weak in terms of transparency of pricing, as well as the presence of effective dispute-resolution mechanisms, although adherence to Smart Campaign norms is growing among MFIs and MFI networks.
- The system of credit information remains patchy and incomplete, and developing a legal framework that would integrate the public registry with private bureaus and allow for the sharing of information by and with non-regulated institutions is a pending priority challenge facing the Superintendencia de Bancos (the Banking Superintendency).

Key changes and impacts since last year:

- A legal framework awaiting approval in Congress as of June 2013 would create two new forms of regulated and supervised MFIs as sociedades anónimas (commercial entities), one of them deposit-taking and the other allowed to issue bonds, if certain minimum-capital and other risk-management and provisioning requirements are met and approval is granted. This would create a much-awaited upgrading pathway for some larger non-governmental organisations (NGOs).
- On terms that are less well specified in the pending Law and left to implementing regulations, non-regulated institutions would be required to register (and pay a fee) with the Ministry of the Economy, which would take on some supervisory responsibilities and also take on an as yet not well specified role in providing technical assistance, promoting transparency in partnership with ratings agencies, and channelling more second-tier funding.
- Both the banking superintendency and Ministry of Economy have been receiving training, in part through funding from multilateral institutions, to take on new regulatory responsibilities, and progress in developing greater expertise, which has merited a score upgrade.

Haiti

Key characteristics of the microfinance business environment:

- The three largest microfinance institutions (MFIs) have national networks that cover all of the major urban centres in the country. While the volume of activity is concentrated in Port-au-Prince, this is due to its role as the economic capital. As the country has recovered from the 2010 earthquake and some humanitarian projects/ non-governmental organisations (NGOs) have

closed operations, the economy has been affected by reductions in demand for services and liquidity. This trend is having an important impact on micro, small and medium-sized enterprises (MSMEs) and their ability to repay loans.

- Two of the largest MFIs (SOGESOL and MCN) are non-bank subsidiaries of the largest banks in the country and can leverage some of the banks' infrastructure (for example, reporting, risk analysis, client-protection initiatives) for their microfinance operations. Credit unions (CUs) and NGOs are integral microfinance providers. Le Levier is the largest network of CUs in the country.
- There is no legislative framework for microfinance. Historically, the government's capacity to regulate in Haiti has been weak and characterised by poor implementation and uncertainty.
- The lack of a credit bureau still acts as a large obstacle to raising the overall standard of the market in Haiti. There is discussion that the Banque de la Republiqued'Haiti (the central bank) is developing a system. The lack of a national-identification system is another obstacle in developing a credible credit bureau.

Key changes and impacts since last year:

- The central bank has drafted legislation for microfinance that has the potential to bring more professionalism into the industry. The smaller MFIs are concerned that, once the law passes it gives them one year to comply with new requirements, which include capital ratios and reporting. Bank-operated MFIs are less concerned with the introduction of new requirements. However, there is no real timeline for the passage of the new law, as the draft has not yet been formally presented.
- The reduced capacity of the state to oversee financial activity facilitates NGOs' mobilising of deposits.
- The mobile-banking platform introduced by TchoTcho Mobile was dormant for much of the year, and re-launched in June 2013 to allow for more flexibility in operations. The new platform is not limited to partnering with one bank and it allows for international transfers (that is, remittances).
- Social and political unrest resulting from broader economic and political problems in the country have led to fires (arson) in Port-au-Prince around market areas. Micro-businesses are beginning to be negatively affected by these fires and the downward trend in the socio-political environment.

Honduras

Key characteristics of the microfinance business environment:

- The regulatory framework for microfinance is relatively well developed and includes a definition of the activity and one type of specialised institution known as Organismos Privados de Desarrollo Financiero(OPDFs, private financial-development organisations), the first of which was established in 2005. However, specialised capacity for microfinance regulation and supervision remains limited.
- There is a broad range of institutional types in the microfinance industry, both among regulated and non-regulated institutions, although there is high concentration of portfolios among four large microfinance institutions (MFIs). However, the appeal of OPDFs to MFIs has shifted to finance-company status, as 2012 regulations have established technical reserves and withholding tax.
- While transparency standards have improved for a range of better-managed MFIs, both regulated and non-regulated, interest-rate-disclosure standards (tightened considerably for regulated institutions from August 2013, under new regulations) do not apply to non-regulated institutions, many of which still obscure interest rates, fees and other costs to consumers.
- Migration to IFRS by regulated institutions was delayed yet again, and currently will not take place until 2014.
- To date, there has been very limited development of agent and mobile banking.

Key changes and impacts since last year:

- Political shocks related to growing urban and

rural violence and political instability threaten the operations and health of the microfinance industry in a year of economic volatility and crucial presidential and congressional elections in November, and have led to a downward score adjustment.

- New regulations have greatly strengthened the dispute resolution and reporting system for regulated financial institutions (FIs).
- Efforts to bring some credit co-operatives under voluntary regulation continue via multilateral technical assistance to 25 co-operatives and publication of a specialised official accounting manual for those co-operatives that choose to become supervised by the ComisiónNacional de Bancos y Seguros(CNBS, the financial regulator). However, as of July 2013, none had officially come under CNBS regulation and supervision.

Jamaica

Key characteristics of the microfinance business environment:

- The industry remains underdeveloped and is composed of a small number of non-regulated non-governmental organisations (NGOs), along with credit unions (CUs), which have only recently come under regulatory scrutiny, and a few private companies and banks that offer micro-credit.
- The weak state of the Jamaican economy has sparked a proliferation of small lenders. However, the line remains blurred between micro-lending for productive purposes and pay-day lenders. There are a large number of unregulated CUs and setting up a new CU is currently a relatively straightforward process. However, proposals under discussion for closer supervision by the Bank of Jamaica (BoJ, the central bank) would make this harder.

Key changes and impacts since last year:

- Two private credit bureaus (PCBs: CRIF NM Credit Assure Ltd and Creditinfo Jamaica Ltd) have been granted licences by the Ministry of Finance and have started to collect information on borrowers' credit histories. However, so far, only one MFI is registered.
- The BoJ is continuing to push for tighter regulation of Jamaica's CU. However, CUs remain resistant to the reforms, as they would impose a cap on unsecured credit and minimum-capital requirements for start-up CUs. This would set major barriers to new entrants to the market.
- The BoJ is actively promoting micro-lending as a means of stimulating the weak economy. This is being done through the disbursement of additional funds through the Development Bank of Jamaica, which has benefitted ten MFIs to date.

Mexico

Key characteristics of the microfinance business environment:

- There is no general microfinance framework. The main regulator, the Comisión Nacional Bancaria de Valores (CNBV) has defined microfinance as a broad range of services targeted at the lower-income population, rather than an industry in itself. However, the CNBV has made efforts to consolidate microfinance activity into a limited number of legal entities, thereby reducing the complexity of the market as seen in previous years.
- The Sociedades Financieras Populares (SOFIPOS, for-profit financial partnerships) are the main regulated vehicles for microfinance, along with Sociedades Cooperativas de Ahorro y Crédito (SOCAPS, non-profit savings and loan co-operatives), the latter having an auxiliary system of regulation. Both SOFIPOS and SOCAPS are allowed to take deposits. Banks are significant players in the industry, with some having more than 2m borrowers in 2012. Unregulated microfinance institutions (MFIs) generally take the form of Sociedades Financieras de Objecto Múltiple (SOFOME-ENR), as well as those co-operatives that have yet to upgrade to SOCAP status.
- Transparency varies greatly, depending on the type of MFI, its size, and whether it is regulated or supervised. Accounting standards are generally high for regulated institutions (only listed firms are allowed to adopt IFRS), while non-regulated MFIs are forced to adopt minimum standards of

transparency and governance if they are part of a network. Transparency in pricing is also high for regulated institutions, but non-regulated MFIs tend to avoid publishing effective interest rates.

● There is a financial-sector consumer protection agency known as CONDUSEF, which also has modest supervisory powers, owing to a recent law. Disclosure of fees is mandated for both regulated and non-regulated institutions by CONDUSEF. CONDUSEF also offers dispute-resolution services, such as conciliation, but this may be extended to include arbitrage. There are also two credit bureaus, which together cover nearly 100% of the adult population.

Key changes and impacts since last year:

● Given the unlikelihood that many unregulated co-operatives would have met the deadline for conversion into SOCAPs, originally set for December 31st 2012, the CNBV has set a two-year extension, to March 31st 2014, with the negative consequence of hundreds of unregulated institutions remaining in operation.

● Over-indebtedness remains a problem in some regions of the country and particularly in the south. Overall, the microfinance market appears to be heading towards greater consolidation, with numerous mergers and acquisitions (M&A) taking place in recent years. Fees and rates remain higher than in other Latin American countries, partly as a result of high levels of concentration (four firms dominate) and also because competition is less focused on price than on access to services (such as less onerous requirements and larger loans).

● A major banking-sector reform has been passed by the Chamber of Deputies (the lower house) and is likely to be signed into law during the second half of the year. The reform makes significant inroads in boosting financial inclusion, strengthening the role of the government in the development-banking segment, and giving the CNBV and (especially) CONDUSEF greater regulatory powers in areas such as sanctioning and dispute resolution.

Nicaragua

Key characteristics of the microfinance business environment:

● There is great potential for microfinance in Nicaragua. The lack of interest from the main banks in financing small and medium-sized commercial ventures or agricultural producers (owing to the higher operating costs involved) has created a large unmet demand for credit facilities, particularly in rural regions. Following a period of significant political and economic volatility, the industry has stabilised and has started to recover. It now serves over 260,000 clients.

● There is a wide variety of microfinance providers in Nicaragua, most of which are not regulated by the traditional financial regulator. However, most of the non-regulated microfinance institutions (MFIs) fall under the supervision of the Comisión Nacional de Microfinanzas (CONAMI), a regulator specially designed to improve the operating standards of this type of MFI and therefore strengthening supervisory capacity towards previously unsupervised microfinance non-governmental organisations,NGOs. Also, a 2011 Law focuses on improving interest-rate transparency, allowing MFIs to set interest rates freely, but barring them from imposing other types of charges on borrowers, as well as setting a maximum limit on what institutions can charge for payments in arrears.

● Financial transactions through agents are in their initial stages, but the authorities are gradually putting in place norms to regulate and develop new methods to expand the reach of microfinance. There is particular interest among some telecommunications providers and MFIs to offer mobile-banking products, as well as other services, such as micro-insurance and micro-pensions.

Key changes and impacts since last year:

● The implementation of the 2011 Microfinance Law has gathered pace over the past year, with CONAMI opening for business in October 2012. CONAMI has begun to issue a wide set of norms

ranging from administrative requirements to external and internal auditing. Over the next year, CONAMI is expected to complete the regulatory process, issuing norms in key areas such as client protection, pricing transparency, risk management and the standardisation of financial information.

- There has been a very positive interaction between CONAMI, other government agencies, MFIs and external experts to smooth out the transition process to the new regulatory framework. This has helped most MFIs meet the new obligations set by the 2011 Microfinance Law (including new capital requirements) without causing any significant risk to the industry. Moreover, CONAMI has worked with local and external actors to publish industry-specific norms following international best practices.
- Political risks have diminished considerably and the government continues to appear committed to the recovery of the microfinance industry. This has helped restore confidence among MFIs (which can now focus on expanding their services and client bases) and with international lenders, who are extending new loan facilities. Nonetheless, some challenges still remain, including dependency on external funding, institutional risks, given the country's weak judicial system and inefficient bureaucracy, and questions about CONAMI's funding.

Panama

Key characteristics of the microfinance business environment:

- General financial-sector regulation and supervision are considered high-quality. Except for the regulation that exists to obtain a licence for operating microfinance banks, regulation specific to microfinance is still lacking. Supervision of institutions operating in microfinance is dispersed across separate entities forbanks/specialised banks, finance companies and co-operatives.
- The long-established sole credit bureau is generally considered to be of good quality, and is widely used and reported to by the range of institutions in microfinance. Its coverage of the adult population is above the regional average.
- Client protection remains an area of uneven progress, although efforts at voluntary self-regulation through the sectoral network and adoption by some institutions of best-practice international norms continue to grow.

Key changes and impacts since last year:

- The Superintendencia de Bancos Panamá (the banking superintendency) has issued new regulations regarding electronic and mobile banking and non-banking correspondents, as well as having authorised a new simplified banking account for selected customers over the past two and a half years or so, as part of a new focus on financial inclusion. However, innovation by institutions has not kept pace and some informants criticise deposit-taking regulations, as well as new risk-management guidelines as overly conservative and stringent.
- The large co-operative segment remains in regulatory limbo and at least three large co-operatives are under official intervention by the Instituto Panameño Autónomo Cooperativo (IPACOOP, the co-operatives supervisory body); earlier efforts to bring co-operatives under superintendency prudential regulation were resisted, but discussions are underway by which IPACOOP might receive technical assistance to undertake prudential supervision of at least larger co-operatives.

Paraguay

Key characteristics of the microfinance business environment:

- The regulatory environment is conducive to micro-credit provision by banks and finance companies. The usury cap on interest rates is permissively high to permit profitability (although non-regulated institutions often operate outside it). State-subsidised first-tier competition in micro-lending exists through several institutions, but its impact is limited.
- Specialised regulatory and supervisory capacity

for microfinance on the part of the Banco Central del Paraguay (BCP, the Central Bank) is modest, but has been growing in recent years. An office of financial inclusion has been established.

- Paraguay has a moderately effective credit information system (CIS). A public credit registry is restricted to and for regulated institutions, while an established private bureau is available to and utilised by nearly all institutions in the industry, with mostly negative information. Both have fairly good population coverage by regional standards, although access to information through the courts about debtors undergoing judicial proceedings has been blocked by a June court decision currently under appeal.

Key changes and impacts since last year:

- Accounting transparency has improved significantly. This is reflected in notable improvements in Mix Market disclosed ratings for the country's seven listed microfinance institutions (MFIs) since last year, as well as some improvements in the self-regulation of co-operatives under the Instituto Nacional de Cooperativismo (INCOOP, the national co-operatives institute).
- While the BCP requires monthly publication of interest rates by regulated institutions, in reality the effective rates, including commissions and other fees, are not always clearly disclosed.
- Efforts are currently underway to develop a simplified banking account, as well as a legal framework for mobile banking. Regulations facilitating this type of branchless banking have remained mired in conflicts over the roles of telecommunications operators and financial institutions (FIs).
- Reportedly, the Central Bank is setting up a consumer-protection office, which would be important, as existing offices in the government are general-purpose and not equipped for financial and microfinance matters. Self-regulation is advancing slowly, as eight MFIs have adhered to Smart Campaign norms and one is currently undergoing an evaluation of compliance.
- The perception of political and regulatory risk has declined considerably since the crisis surrounding the 2012 lightning impeachment. New elections were held recently, with a well regarded incoming government with a stable majority coming to office in August; the financial authorities remained autonomous and competent in their management and regulation of the economy and microfinance through the crisis; and existing institutions seemed to weather the storm.

Peru

Key characteristics of the microfinance business environment:

- The principal regulator of microfinance in Peru, the Superintendencia de Banca, Seguros y AFP (SBS, the Superintendency of Banking, Insurance, and Pension Funds), has implemented regulation in order to create a fair and competitive marketplace. The lack of an interest-rate cap, reasonable capital requirements and the availability of various legal structures create low barriers to entry.
- Adequate supervision and the existence of solid credit bureaus in the country have helped develop a competitive market. In the last year, five new microfinance institutions (MFIs) have requested formation under a simplified regulated structure and four MFIs have transformed from one structure to another.
- High levels of transparency around effective interest rates, financial statements and client disputes complement this legislative and regulatory framework. The SBS monitors all this information and makes it publicly available on the Internet and in newspapers. Individual MFIs must publish their pricing and client-dispute statistics on their websites.
- Client-protection initiatives have evolved beyond the implementation of best practices; a focus is on educating clients to understand financial concepts and know their rights. In order to address low levels of financial literacy, the SBS and the Ministry of Education in Peru have developed curricula to teach this type of skill in

schools, which marks these institutions as pioneers in this area.

Key changes and impacts since last year:

- In January 2013, the Congress passed Law 29985, which defines the basic characteristics of electronic money as an instrument for financial inclusion. The Law creates a class of companies, known as Electronic Money Issuing Companies. These companies can issue and collect electronic money, but they will not offer full financial products and services. As issuers of money, they will be prudentially supervised by the SBS. Law 29985 also sets client-protection policies for consumers of electronic money. The impact of this new Law is yet to be fully realised.
- Competition continues to bring interest rates down and put pressure on profitability. MFI clients with good credit scores often receive competing offers from several institutions. Over-indebtedness is a risk, and delinquency rates in the microfinance industry have remained higher than the historic average, even as the country recovered from the 2008-09 financial crisis. Non-performing loans (NPLs) as a percent of the portfolio are higher than they were before the crisis, and the SBS is watching the situation.
- There are some recent concerns regarding deterioration of asset quality, which is more a reflection of geographic and customer overlaps by market participants. Cajas municipales de ahorro y crédito (CMACs, municipal savings and credit banks) in particular, tend to be more active in urban and peri-urban spaces, whereas rural markets continue to be largely underserved.
- In order to promote non-governmental organisations' (NGOs) reporting of creditors' information to the SBS credit bureau, the SBS has been working with the Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Pequeña y Microempresa (COPEME, the private consortium for the promotion of small and micro-enterprises) to conduct training workshops for NGOs. These activities aim to train NGO representatives to submit information to the SBS credit bureau in a timelier manner. The process has started with the largest NGOs, which are already reporting to private bureaus.

Trinidad and Tobago

Key characteristics of the microfinance business environment:

- Trinidad lacks a legal framework or expertise inregulating microfinance. The Financial Institutions Act regulates regular banking and non-bank financial institution (NBFI) activities, including lending, which require licensing by the Central Bank of Trinidad and Tobago. Hard data are lacking, but there seems to be scant downscaling by banks into microfinance. Microfinance operations of non-governmental organisations (NGOs) and credit unions (CUs) are not prudentially regulated, and both regulated and non-regulated MFIs are free to set their own interest rates.
- Subsidised government first-tier programmes in support of micro-entrepreneurs exist, but it is not clear whether they distort the market, given the shallow penetration of microfinance in the country.
- Accounting standards are strong and use of IFRS mandatory at regulated financial institutions (FIs), but standards are weaker in practice at non-supervised MFIs. A voluntary system of financial services ombudsmen exists in the regulated segment, but with limited impact on dispute resolution in terms of microfinance. Non-regulated institutions lack such internal mechanisms.

Key changes and impacts since last year:

- Despite the absence of a strong push from regulators for an agent model of financial inclusion, involving non-bank correspondents or electronic transactions, mobile banking has begun to appear at several commercial banks.It now constitutes a small share of transactions.
- It is not clear if the momentum for tightening supervision of credit unions (CUs, which have significant microfinance activities) that was generated amid inquiries in recent years into the 2008 collapse of a major local conglomerate and large CU will eventually lead to passage under the new government of a 2012 draft Bill in parliament;

the Bill would bring CU under prudential supervision by the Central Bank.

- Additional resources and staff would also be necessary for the Central Bank if such a reform were to pass, given that it is stretched thin by its new responsibilities for overseeing the insurance industry, as well as banks and non-bank financial institutions (NBFIs).
- In 2012 Microfin Caribbean Holdings, the regional Caribbean microfinance subsidiary of conglomerate DFL Holdings, shut its operations in Trinidad amid mounting losses in the unit and a larger restructuring of the corporate parent. The move leaves only a single active Trinidadian MFI listed in MIX Market as of July 2013.

Uruguay

Key characteristics of the microfinance business environment:

- Government social programmes aid the poor and microfinance institutions (MFIs) complement these programmes by offering financial products to recipients. Historically, microfinance operators have been part of the system of social welfare and did not seek to be self-sustainable or profitable.
- There is no legislative framework that specifically addresses microfinance. Financial-services regulation is strong, but microfinance oversight is limited. Interest-rate caps exist and are calculated using rates that include commercial lending and are consequently artificially low. The low interest-rate cap acts as a deterrent to doing business in microfinance, as it challenges existing MFIs to break even.
- Client-protection laws are strong and the government is working to develop financial-literacy programmes. There is room for reform, especially with respect to the interest-rate cap.

Key changes and impacts since last year:

- In June 2013 the Banco Central del Uruguay (the Central Bank) passed new laws about financial correspondents and simple bank accounts. The legislation aims to expand access to financial services, especially for citizens with low income levels or in remote geographic locations. Leading MFIs follow International Accounting Standards (IAS), report to the Central Bank and, at the end of 2012, they held around 70% of the microfinance portfolio. Non-regulated institutions (non-governmental organisations, NGOs) are not subject to financial-system regulations; however they must meet Uruguay's accounting standards.
- As of March 2013, the microfinance loan portfolio held by InstitucionesFinancieras (IFs, financial institutions) reached US$807.8m Uruguayan pesos (around US$39m). This represents 24% growth from 2012. The number of clients was 23,700. Growth is expected to slow in 2013.
- In the past year, the government reclassified lending categories in order to allow differentiated interest rates for micro-lending to micro-businesses. These rate caps are higher than other micro-lending caps, but remain artificially low for the market.
- The Observatorio de Microfinanzas (an MFI bureau), which was founded in August 2010, continues to work to bring transparency and knowledge to the industry. It is instrumental in data collection, analysis and communication of trends and findings.

Venezuela

Key characteristics of the microfinance business environment:

- There is a Law to promote the microfinance industry, but it does not include supervision and risk-management provisions that distinguish between microfinance, consumption and small-business lending. There is no regulation for non-bank financial institutions (NBFIs) that offer microfinance products. Banks and other FIs that offer microfinance products are regulated by the general Law on Banking of 2010.
- Venezuela's microfinance industry remains

relatively small and no new organisations have been created during the past year. A difficult business environment and government intervention—through which the independence of Superintendencia de las Instituciones Bancarias(Sudeban, the banking superintendency) has been compromised—limit the creation of non-regulated microfinance institutions (MFIs). The Ley Orgánica del Sistema Nacional Financiero does not offer a differentiated regulatory framework to promote the creation of regulated MFIs.

- Public banks and FIs that offer microfinance products distort competition. The microfinance products of the public institutions are aimed at the new organisations of the socialist model, such as the communitarian councils or the social property companies offering below market rates and flexible requirements for lending.
- Although Venezuela provides a well-developed general consumer-protection legal framework, there are several practical obstacles to dealing effectively with client disputes. A very weak institutional framework means that judicial processes are slow, bureaucratic and costly.
- With a near-complete absence of credit bureaus, microfinance providers have very limited access to credit information, unless they can gather it individually. This has increasingly extended responsetimes for loan applications. The public credit bureau (PCB), which is administrated by Sudeban, collects limited information through a costly process, little of which is relevant to microfinance.

Key changes and impacts since last year:

- Inflation has rapidly increased in 2013, limiting the sustainability of microfinance products, especially for non-bank financial institutions (NBFIs).
- The environment for microfinance continues to be challenging. Although dialogue between the private financial sector offering micro-credit and Sudeban has managed to attract the attention of the regulator to the industry, no concrete actions have been taken by the government. Market competition continues to be distorted by the government's interest-rate restrictions, directed-lending requirements and the presence of subsidised public micro-lenders.
- Sudeban issued a regulation to increase client protection, requiring banks to address clients' demands in a specific amount of time. In practice, this has reduced the number of disputes that must be resolved by third parties.
- Commercial and development banks offering micro-loans have developed programmes to increase the financial literacy of their clients and to offer legal and business support to micro-enterprises. However, the difficulties of setting up a business in Venezuela and the administrative cost of completing the paperwork needed to formalise economic activity has limited the creation and growth of new formal businesses through micro-loans. ■

Middle East and North Africa

Egypt

Key characteristics of the microfinance business environment:

- The Central Bank of Egypt (CBE) and the Ministry of Social Solidarity are the two central authorities tasked with regulating microfinance in Egypt. However, both lack the capability and capacity to provide adequate regulation of the industry and there is no specific regulatory framework for microfinance.
- Four banks and over 400 non-governmental organisation-microfinance institutions (NGO-MFIs) provide microfinance services around the country. NGO-MFIs make up the vast majority of the micro-credit industry.
- The microfinance industry does not currently meet the expectations or the needs of the poor. There is considerable room for regulatory reform and industry growth.

Key changes and impacts since last year:

- The industry continues to be impeded by the lack of political stability. The removal of Mohamed Morsi as president a is likely to result in a delay and transformation to the new draft NGO Law that was due to be voted on by the Shura Council this year.
- The industry suffers from weak dispute-resolution mechanisms, neither the law nor the Consumer Protection Association (CPA) offer effective solutions. Consequently, in practice informal dispute-resolution mechanisms are the method predominantly used. However, eight of the mainstream NGO-MFIs subscribe to the Smart Campaign, which obliges them to have mechanisms for the redress of grievances.
- The private credit bureau (PCB), I-Score, is now fully operational, covering 600,000 clients from six MFIs and work is ongoing to expand this coverage beyond Cairo.

Lebanon

Key characteristics of the microfinance business environment:

- The dominance of the two main political/ sectarian factions within the microfinance industry continues. Emkaan is operated through the funds of the Hariri Group, and has nearly 5,500 active borrowers. Al Qard Al Hassan is funded by Hezbollah, and services around 69,000 clients.
- Supervision of the microfinance industry is weak and ineffective. The Ministry of Interior, which oversees non-governmental organisation-microfinance institutions (NGO-MFIs), does not have the capacity or capability to regulate the financial operations of MFIs. Banque du Liban (the central bank), which regulates financial institutions (FIs), does not deem regulation of microfinance a priority and does not monitor the activities of MFIs closely.
- In total, there are an estimated 20 MFIs, of which the vast majority are NGOs and located in urban areas. There remains substantial room for growth of the microfinance industry in Lebanon, particularly in rural areas.

Key changes and impacts since last year:

- Ibdaa, funded by the Arab Gulf Programme for Development (AGFUND), began operations in July 2012 as a new FI, bringing the total number of FIs in Lebanon providing microfinance to three.
- The lack of political stability, as well as the absence of capacity and interest in the Ministry of Interior and the central bank, has resulted in the continued delay of much-needed reforms in the microfinance industry.
- The war in Syria and the arrival of large numbers of refugees into Lebanon is placing strain on the ability of borrowers to pay back their loans and the ability of MFIs to operate in areas close to the Lebanese-Syrian border.
- Infrastructure can present an obstacle, property prices and rents throughout the country remain high, Internet and mobile communications are expensive and mobile banking continues to be unavailable for microfinance.

Morocco

Key characteristics of the microfinance business environment:

- The industry is dominated by a few large microfinance institutions (MFIs). Market concentration has increased over the last two years and is likely to increase further as small MFIs seek to form alliances.
- Micro-credit is the only financial service currently offered by MFIs.
- The considerable growth in non-performing loans (NPLs) that occurred in 2008 has been brought under control and mitigated most recently by the new credit bureau.
- The major MFIs (representing over 90% of the market) comply with good governance and accounting practices and are fairly transparent.

Key changes and impacts since last year:

- Law n° 41-12 was adopted in December 2012 by the council of government to amend and complete the Microfinance Associations Law no. 18-97, as part of the national strategy. The adoption of the Law formalised a framework for consolidating micro-credit association through acquisitions or mergers. The Law is aimed at encouraging smaller micro-credit associations (MCAs) to consolidate to achieve critical mass.
- Small MFIs have successfully gathered into a professional network. It will improve reporting to Bank al Maghrib (BAM, the central bank) and to the private credit bureau (PCB). The latter, run by Experian, is successfully operating and preventing multiple borrowing.
- The microfinance industry has successfully recovered from the revolt in southern Morocco against microfinance and stability has been fully restored.
- The private sector, government and international institutions are co-ordinating to strengthen the infrastructure for microfinance to promote common platforms and new products for MFIs.

Yemen

Key characteristics of the microfinance business environment:

- With just 7% of Yemenis possessing a bank account, long-latent demand among the Yemeni population for financial services would seem to make the country an ideal market for microfinance.
- Although still small, the industry has grown extremely rapidly, from just 3,282 active borrowers in 2002 to 66,419 in 2010. However, the country's political crisis in 2011 saw the industry retrench, with the number of borrowers dropping to 63,664 by end-September. The industry has since bounced back, however, with the number of borrowers reaching 82,206 by end-2012.
- The microfinance industry is composed of both microfinance institution-non-governmental organisations (MFI-NGOs), which are overseen by the Yemen Microfinance Network (YMN) and the Social Fund for Development (SFD), and two microfinance banks (MFBs) licensed by the central Bank of Yemen. The YMN, which includes all the MFI-NGOs and licensed MFIs in the country, has taken over most of the training and capacity-building responsibilities of the SFD.
- The country's Microfinance Law was passed in 2009, and it is widely deemed to provide a clear set of rules for microfinance operations. However, there are no clear regulations demanding that companies must present their rates, either in the Microfinance Law or the earlier Commercial Banks Law. Dispute-resolution avenues are also underdeveloped, with many Yemenis reverting to a local Shura council, comprising elders of the tribe, to resolve disputes.
- The SFD has set up a credit bureau for non-licensed MFIs. However, not all the country's NGOs provide regular updates to the SFD's bureau, despite a requirement to do so. A credit bureau is in place at the Central Bank, but it is not especially suitable for microfinance.

Key changes and impacts since last year:

- The microfinance industry has recovered strongly since the chaos that engulfed the country

in 2011. However, activity in a number of areas, notably Abyan, will take some time to revive, given the prior scale of the disruption.

- Al Kuraimi has launched the first microfinance mobile-phone service allowing the transfer of money, and Al Amal is expected to roll-out its own version shortly. However, the Central Bank has yet to update its regulatory regime to incorporate this innovation.
- A Youth Savings Initiative has been set up, involving Al Kuraimi and Al Amal, alongside a number of international donors, designed to increase financial access for those aged 18-30. ■

Sub-Saharan Africa

Cameroon

Key characteristics of the microfinance business environment:

- The industryis fairly concentrated, with a microfinance institution (MFI) co-operative network, CamCCUL, serving more than half of the clients currently served by the industry. New market entrants, such as EB-Accion, may help to increase market dynamism. Over the past decade, the industry has delivered significant growth (particularly in mobilising savings, where Cameroon has performed considerably better than other countries in the region), although overall market penetration and outreach remain very low, especially in lending to micro, small and medium-sized enterprises (MSMEs).
- The official Microfinance Law, which was drafted in 2002, is considered ill-adapted. Most MFIs fail to comply for that reason and for lack of capacity. Moreover, MFI supervision remains weak owing to a lack of capacity at the regional authority and MFIs' non-compliance with reporting requirements.
- There is a high number of unlicensed MFIs that operate illegally and jeopardise the credibility of MFIs, as well as that of the Commission Bancaire de l'Afrique Centrale (COBAC, the Central Africa Banking Commission). Efforts to crack down on illegal non-regulated MFIs are ongoing and this remains a major objective of the authorities, but capacity constraints mean progress will be slow.
- The absence of a credit bureau or any process for exchanging information on those with poor payment records is a major risk. There are no concrete plans for creating a credit bureau in the near future, despite pressure from international financial institutions (FIs).
- Very weak transparency in pricing and the absence of any recourse mechanism makes client protection a serious concern.
- The regional authorities are in the process of developing a more extensive regulatory framework for electronic-money transactions, and services such as mobile money are underdeveloped in comparison to those in many other countries in Africa.

Key changes and impacts since last year:

- After widespread confusion among MFIs, Category-1 MFIs (such as co-operatives) are not subject to taxes on profits, despite measures from the Ministry of Finance introducing such a move.
- After spending several years installing Sesame, its new information system, which will automatically manage the control and supervision of microfinance activities, COBAC issued a letter making it compulsory for MFIs to report through this system on a quarterly basis. This could deter non-regulated MFIs from becoming regulated MFIs, as it will significantly increase the reporting requirement for MFIs. Although it is unlikely to pose a problem for larger, professionally managed MFIs, lack of electricity and weak access to the Internet in many areas will hinder smaller MFIs' ability to adhere to this rule. The measure it yet to be enforced, however (as of mid-2013).
- The government has launched a CFA21bn (around US$43bn) national strategy for microfinance with the aim of boosting capacities in the industry and reducing risks. Most of the funds will go towards training and providing assistance to MFIs. This is likely to improve accounting methods and boost capacities in the long run and underlines the government's eagerness to strengthen the microfinance industry.
- The Ministry of Finance updated its list of approved MFIs (452) in an effort to increase awareness among the public and deter them from soliciting non-regulated MFIs, which continue to face threats of closure by the authorities.

Democratic Republic of Congo

Key characteristics of the microfinance business environment:

- The microfinance market in DRC was originally dominated by co-operatives and mutual credit

union savings organisations (COOPECS), which were allowed to lend money to members. The formal sector grew rapidly in 2007-12, but has since slowed.

- Registration and licensing of commercial banks and microfinance institutions (MFIs), including those offering microfinance products, require approval from the president's office, and can take up to 18 months. New microfinance regulations are due to change this in 2014, delegating authority to the Banque Centrale du Congo (BCC, the Central Bank).
- The DRC's large size and challenging geography, particularly its relatively limited transport networks, contribute to a lack of effective supervision in more remote locations. In rural areas, the informal, non-regulated segment dominates.
- Currently, there are no functioning credit bureaus, although a national one is being developed. A lack of qualified people for employment in the industry and a penury of adequate training courses impedes raising standards and overall industry growth.
- The low level of coverage and proportions of depositors with unsophisticated demand mean that savings products are fairly restricted in scope, mostly to interest-bearing demand-deposit accounts.

Key changes and impacts since last year:

- New microfinance regulations were finally promulgated in early 2013 and will come into force one year after the date of promulgation. These regulations strengthen the supervisory and regulatory capacity of the BCC. They also give the Central Bank powers of sanction to fine and wind down MFIs that fail to meet standards or breach the terms of their licences.
- There was a ministerial reshuffle in 2012, where the new prime minister was put in charge of the Ministry of Finance. The governor of the Central Bank has also been changed. It is hoped that the new appointment for the BCC will improve financial-sector oversight, including of the microfinance industry.
- The new government has decided to bank all civil servants. Their salary, previously paid in cash by superiors, will now be electronically transferred to the individual bank account of each civil servant, which may also eventually boost electronic and mobile forms of payment in DRC.
- A new Law establishes that accounting practices in the DRC should follow international norms, and strengthens the provisions for both board supervision and external audit of accounting practices, making money laundering and terrorist financing illegal, in line with current banking laws. It also instructs MFIs on client protection on price transparency and dispute resolution.
- MFIs can serve as intermediaries or agents for payments through authorised entities, such as telecommunications companies and banks. Mobile-banking services are currently provided by telecoms companies, such as Airtel and Vodacom. However, the existing telecoms infrastructure is a major impediment to the widespread use of new technologies such as mobile banking. Mobile-phone operators in the country and the BCC are nevertheless keen to allow, develop and offer mobile-banking services.

Ghana

Key characteristics of the microfinance business environment:

- There is very strong demand for microfinance services in a rapidly expanding economy, from both individuals and small companies, to further stimulate growth and alleviate poverty. Efforts to strengthen confidence in the microfinance industry are taking place, through the Transparent Pricing Initiative, a new Microfinance Law, and increasing use of credit referencing and improved supervision.
- A well-established set of government policies to promote the industry exists, with Apex Institutions (representative network) providing support on an industry basis. Young people dominate activities in the economy, both within and outside the microfinance industry. This brings energy as well as challenges in managing

sustainable growth of the industry.

- There is a diverse offering of over 500 microfinance providers across the country. While the product portfolios remain generally narrow in scope, principally simple lending and savings products, the organisations providing them range widely in size and legal structure.

Key changes and impacts since last year:

- The implementation of the new microfinance legislation in 2011 has led to over 500 licence applications from MFIs, of which around 171 had been given by June 2013. This has created a substantial administrative process, which has proved to be a challenge for authorities to manage within the existing resources and capabilities. It has also created some tensions between market operators and regulators.
- The Microfinance Pricing Transparency Programme (MPTP), the FINSCOPE study, the Financial Sector Action Plan and parliamentary discussion of a new Law to govern the co-operative segment of microfinance, have all generated policy recommendations to take the microfinance industryto the next stage of development. The implementation plan is the next step.
- The MPTP has highlighted credit pricing. According to its review of financial reporting in December 2011, the Ghanaian market displayed a strong adherence to best-practice financial reporting standards, with 80 MFIs, including all market leaders, reporting their 2012 financial and operational performance data to MIX market.
- The 2011 Microfinance Law mandates a supervisory and regulatory role to the Bank of Ghana (BoG, the central bank), although a strengthening supervisory role for Apex Institutions remains under discussion by experts. In July 2013, the BoG announced its intention to raise the minimum required paid-in capital for microfinance companies from GHS100,000 (around US$46,000) to GHS 500,000, in order to stem the tide of unscrupulous companies being launched. The BoG raised the minimum required paid-in capital for savings and loans companies (S&Ls) to GHS7m (US$3,2m) in December 2012.
- While agent banking has not lived up to the inflated expectations, many banks and non-bank financial institutions (NBFIs) are beginning to utilise the Mobile Network Operatos (MNOs) and bank-led models which are now being offered. Banks' minimal participation and investment in the MNO-led agent-banking partnerships is attributed to a reluctance to invest resources that would benefit direct competitors in "many bank-many MNO" systems, which are the only ones allowed by regulations.

Kenya

Key characteristics of the microfinance business environment:

- Deposit-mobilising institutions are strongly regulated, with strict supervision from the Central Bank of Kenya. Banks, deposit-taking microfinance institutions (DTMs), and deposit-mobilising savings and credit co-operatives (SACCOs) have firm reporting requirements to their respective supervisory bodies. While this does capture the majority of clients, it leaves credit-only institutions, which include the majority of microfinance institutions (MFIs) and SACCOs, widely unregulated.
- The transition of an MFI to become deposit-taking has complicated requirements—reporting, information and communication technologies (ICT) infrastructure, and more—and not many financial institutions (FIs) have gone through this transition process, as associated costs remain a barrier. Instead, more greenfield organisations are forming as deposit-mobilisers, thereby avoiding the necessity of later complicated and burdensome adjustments.
- While the transformation of an MFI to a DTM does have higher capital, liquidity and reporting requirements, they are less burdensome than those for commercial banks and certainly in line with the higher risks and required consumer protection necessary for taking deposits.
- There is a burgeoning tech and start-up scene in Kenya, and the ecosystem that is emerging to

cultivate it. There are now a large number of incubators, accelerators and investors based in Kenya, including iHub, NaiLab, 88MPH, GrowthHub (all shared workspaces/accelerator programmes) and investors like Grameen Pioneer Fund, Accion Venture Lab and Invested Development.

Key changes and impacts since last year:

- The Consumer Protection Act was passed in December 2012. Credit-information sharing though credit bureaus progressed to full file (positive and negative) information sharing for banks. Additionally, after a January-June 2013 trial period, regulated deposit-taking MFIs are from 1st July 2013 also required to submit their credit information to the credit bureaus every month.
- Deposit-mobilising SACCOs were required to apply for a licence by June 2011 to be able to continue offering deposit services. However, at that time only 44 of the 219 SACCOs operating as "Front-Office Saving Activities" (FOSAs, which refers to deposit-taking activities) had received a licence. The number licensed reached 127 by June 2013, and is expected to grow further as the Societies Regulatory Authority (SASRA) reviews additional applications.
- In November 2011, the Central Bank of Kenya raised its interest rate significantly in response to an unprecedented weakening of the Kenyan shilling and spiralling inflation. This move resulted in banks raising their interest rates to levels of 23% and above. Rates have reduced to between 15% and 20% after peaceful general elections held in March 2013.
- Pricing transparency remains weak across Kenyan MFIs, without any requirements in place. The Association of Microfinance Institution of Kenya (AMFI) is pushing for its members to hold themselves to a higher standard, and has included pricing transparency in a number of social-performance training sessions conducted since 2011.
- Mobile banking continues to develop at an extraordinary rate in Kenya, with M-Pesa alone reaching over one-third of the population through nearly 40,000 agents. Agent banking as a model is really taking off in the country, as the amendment to the Banking Act (2009) has had a significant impact on financial operations in 2011.
- There were cases of inter-communal violence in 2012 and extending into 2013 that were restricted to some parts of the country, mostly pastoral communities that adversely affected micro-enterprises and microfinance provision.

Madagascar

Key characteristics of the microfinance business environment:

- The microfinance industryis split between the long-established informal co-operative and mutual industry and the more recently established professional microfinance institutions (MFIs).
- The regulatory regime in Madagascar is the outcome of a multi-year programme supported by the World Bank Group. MFIs are governed by Loi No. 2005-016 of September 29th 2005. The supervision of MFIs falls to the BanqueCentrale de Madagascar (the Central Bank), through the Commission de Supervision Bancaire et Financière (CSBF). The 2005-016 Microfinance Law designates a legal hierarchy of MFIs across three tiers, each divided between mutualist and non-mutualist categories, with increasing levels of regulation and supervision concomitant with the level of financial risk (that is, tier-1 institutions receive minimal oversight and supervision, tier-3 the most). The legislative framework in Madagascar establishes three tiers and five categories of MFI.
- The 2007-013 decree sets the capital requirements for all financial institutions (FIs).
- There is a national strategy for microfinance and a highly structured legal framework and national promotion unit, which makes it conducive to establish and upscale MFIs.

Key changes and impacts since last year:

- The continuing political crisis means that very little has changed with respect to the regulatory environment, but it has led to an extended economic downturn, increasing the demand for

loans, while also undermining the credit worthiness of borrowers. MFIs have had to become increasingly vigilant in monitoring the overall riskiness of their portfolios.

- In 2011, the implementation of the regulatory framework (which requires the formalisation of all MFIs via licensing) has come into force, so that, in practice, all unregulated institutions are now barred from offering micro-loans.
- The capacity of CSBF has been strengthened owing to the undertaking of specific training programmes, but it is still under-staffed, which is an important limiting factor that obstructs its efficiency. However, there remain concerns regarding the CSBF's independence in the light of the dismissal of the CSBF director-general, replaced by the appointment of a close relative of the president's wife, as the Acting Governor and CEO of the Central Bank.
- Population of the two new credit-bureau databases began in 2011: one for commercial banks, the other for MFIs (CRM).

Mozambique

Key characteristics of the microfinance business environment:

- Microfinance in Mozambique is primarily focused in the southernmost province of Maputo, which is also the most heavily populated region, and, to a lesser extent, in urban centres across the entire country. Because so much of the population, particularly in the rural areas, is unbanked, there has been a multi-year push by commercial banks and microfinance institutions (MFIs) to expand in the more rural provinces.
- The high cost of doing business in rural areas has typically been a barrier for most MFIs because of the low population density and lack of infrastructure. In order to incentivise a rural push, there are many government subsidies accessible for rurally operating MFIs. However, these subsidies have distorted the microfinance market.
- There are several laws governing the regulation and supervision of microfinance in Mozambique, which define microfinance and give primary responsibility for regulation and supervision of the microfinance industry to the Banco de Moçambique (BDM, the central bank). The central bank is also responsible for the supervision of non-banking financial institutions (NBFIs). The Directório Nacional de Promoção do Desenvolvimento Rural (DNPDR, the National Directorate for Promotion of Rural Development) has also played an important role in the establishment and development of microfinance activity in Mozambique.
- Many of the MFIs are foreign-owned. Combined with the donor money that is pouring into microfinance in Mozambique, most of the push forward (for branch openings, transparency, and the like) seems to be coming from outside Mozambique. Untested agent and mobile-banking regulations, along with the government's formation of a nation switch company (Sociedade Interbancária de Serviços, SIMO), have prevented the widespread expansion of financial services being provided over alternative channels.

Key changes and impacts since last year:

- The BDM currently maintains the only loan registry and its coverage is incomplete. However, a Law on the creation of private credit bureaus has been drafted and is due to be submitted to the Council of Ministers in the course of 2013.
- The 2012 introduction of a third mobile-phone operator, Movitel, with explicit focus on rural areas, and the 2013 launch of new mobile-banking services by another operator, Vodacom, will contribute to expanding financial services in remote areas.
- Although political tensions stemming from consequences of bad economic performance have already had some effect in some sectors (i.e disruption of transport routes), these have not had much of an effect on demand for microfinance services.

Nigeria

Key characteristics of the microfinance business environment:

- There are 869 microfinance banks (MFBs) registered in Nigeria as ofApril 2013. A large portion of the population is still unbanked, particularly in rural areas, and the Central Bank of Nigeria (CBN) is advocating policies that allow penetration of financial services in rural regions, which includes allowing for state-run MFBs and the establishment of the Microfinance Fund.
- The CBN is responsible for the regulation and supervision of the financial services sector asper the Central Bank of Nigeria Act of 1991. The Other Financial Institutions Supervision Department (OFISD), within the supervisory arm of the CBN, has governed the microfinance industry since 2010 and aims to strengthen its supervisory capacity.
- Provisions for regulating microfinance institutions (MFIs) fall under general banking laws, and the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, reviewed by the CBN in December 2012, guides the development of the industry. This framework allows for the licensing of MFBs through the CBN. The reviewed regulatory and supervisory guidelines for Microfinance Banks in Nigeria recognises three tiers of institutions: Unit MFBs, State MFBs, and National MFBs.
- Nigeria is still in the top three countries in Sub-Saharan Africa in terms of the greatest number of greenfield MFBs, as reported by CGAP in 2013. However, large state and even multi-state MFBs have still found it difficult to transform into national MFBs, although the path towards transformation was delineated in 2010.

Key changes and impacts since last year:

- The CBN has revised the Regulatory and Supervisory guidelines for MFBs. This new approach is aimed at streamlining the MFB operations and also offers increased supervision and monitoring for non-governmental organisations (NGOs) and financial co-operatives' deposit-taking activities. The CBN has also reviewed the guide to bank charges, but this effort has still failed to address the regularisation of interest rates across the board.
- MFBs in Lagos state have been calling for a special court to try loan-default cases, to which the CBN agreed in 2011, but is yet to be instituted. The CBN has passed two Bills to the second reading that have direct ties to improving dispute resolution: the Financial Ombudsman Bill, which would help to resolve financial disputes more quickly, and the Alternative Dispute Resolution (ADR) Bill, which would promote and regulate ADR in Nigeria. These have not yet been enacted into law.
- All MFBs are required to comply with IFRS by 2014, and, in preparation, the National Association of Microfinance Banks (NAMB) has begun identifying consultants that can help to build accounting capacity within MFB staff. MFBs that have failed to comply with IFRS have not been penalised by the CBN.
- The CBN has since extended the cashless-banking policy to Abia, Anambra, Kano, Ogun and the River states, making the total number of states going cashless seven. This is an attempt to increase financial inclusion. This move is aimed at increasing usage of automated teller machines (ATMs), points-of-service (POS), card products, the Internet, agency banking and mobile money services. To this end, the CBN has issued guidelines governing POS transactions, as well as instituted charges on cashing large cheques. Mobile banking remains in its infancy for MFBs.

Rwanda

Key characteristics of the microfinance business environment:

- Specific microfinance legislation has been in effect in Rwanda since 2009. The Banque Nationale du Rwanda (BNR, the central bank) is responsible for the regulation and supervision of all financial institutions (FIs) and microfinance institutions (MFIs), which are sub-divided into four categories: category-1 institutions are informal and not

subject to formal regulatory requirements, although they are required to register with the local authority; category-2 institutions, Savings and Credit Co-operatives (SACCOs), where the total deposits are less than RwF20m (US$34,000), are limited to one branch of operation and are required to report their activities to the BNR; category-3 institutions, limited companies and highly capitalised SACCOs with total deposits greater than RwF20m, and category-4 institutions, which do not accept deposits from the public, are also required to report to the BNR.

- MFIs are free to set interest rates, although the BNR requires interest-rate structures to be market-based and allows institutions to recover their operating expenses to ensure the sustainability of the industry, and, particularly, independence from donor and government subsidies.
- The regulatory and policy environment for microfinance is now very strong. However, policy improvements have outpaced capacity building in the industry and MFIs will require time to catch up. This is particularly the case for standards of accountancy and governance, where the regulations are very clear, although several MFIs still struggle to understand and achieve the required standards.
- The government of Rwanda, known for being very proactive, is supportive of microfinance and has prioritised extending access to financial services for the rural community.

Key changes and impacts since last year:

- The microfinance industry continues to expand quickly. Total deposits increased to RwF56.5bn (around US$87m) in June 2012 and the total gross loans rose to RwF51.7bn. Moreover, formal financial access doubled from 21% in 2008 to 42% in mid-2012, and the percentage of people that are financially excluded fell from 52% to 28% over the same period. This is partly a result of the success achieved by the Umurenge SACCO programme in improving access to finance in rural areas.
- The government plans to consolidate all SACCOs at district level by end-2013, and turn them into a national co-operative bank by end-2014. This is aimed at enhancing their institutional capacity and management information system (MIS), as well as increasing the automation of operations.
- The government has drafted a Bill that will create a mandatory deposit-insurance system, which will entail a fund that is used to pay depositors in case of failure by a bank or any deposit-taking FI.
- In part owing to the improved performance of the Credit Reference Bureau, non-performing loans (NPLs) in the microfinance industry were equivalent to 8.3% of outstanding loans in June 2012, down from 12% at end-2011.

Senegal

Key characteristics of the microfinance business environment:

- The microfinance industry remains highly concentrated, with the majority of lending assets held by three major networks. Supervisory authorities' main focus is to manage risk in major networks, while abolishing non-regulated and weak MFIs. This new policy is likely to lead to higher concentration and improved supervision.
- Senegal has a set of sound laws regulating microfinance institutions (MFIs), but there is a lack of supervisory capacity. Although the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO, the regional central bank), supervises the larger MFIs, the national authorities' supervisory capacity remains limited (despite significant efforts in recent years) and small MFIs fail to comply with new regulations.
- Client-protection rules and regulations, both in terms of transparency in pricing and recourse mechanisms, exist, but MFIs fail to comply and authorities seem to tolerate non-compliance.
- Transaction costs are high, making it difficult to extend services on a large scale, especially to remote and rural areas. Mobile banking presents an opportunity to reduce the costs of network expansion. Microfinance authorities are actively involved in launching a mobile-banking platform for MFIs.

Key changes and impacts since last year:

- Supervisory authorities operated a significant number of licence withdrawals in 2011, as part of their recent efforts to abolish non-regulated MFIs.
- Extensive training programmes took place to improve understanding of new accounting and internal-auditing practices. This has laid the basis for tighter supervision.
- The BCEAO is making progress, albeit slowly, on the credit-bureau project. Harmonisation of legislation in all member countries remains a considerable challenge.
- A presidential election happened last year, with unprecedented riots in Dakar in early 2012 following granting of legal permission to Abdoulaye Wade, the former president, to run for a third term. There were huge tensions between political opponents, and there were fears at to possible unrest, but the election went very well and the country is peaceful as usual. With the new president, there have not been any changes in the microfinance industry.

Tanzania

Key characteristics of the microfinance business environment:

- The microfinance industry in Tanzania has moved fairly slowly compared to its East African neighbours, Kenya and Uganda. The country's National Micro-finance Policy from 2000 established general guidelines for the promotion and development of microfinance and its integration into the general financial sector.
- Microfinance in Tanzania enjoys its own specific legal framework. The government generally does not intervene in the market via subsidies or restrictions on interest rates and provides no monitoring systems for other financial institutions (FIs) not under its direct supervision, and has a policy that nuances between institutional types.
- The Bank of Tanzania (BoT, the central bank) regulates and supervises commercial banks and FIs that are deposit-taking. However, credit-only MFIs are not regulated or supervised by the BoT. The Co-operative Societies Act of 2003 established the Registrar of Co-operatives as the regulator for Savings and Credit Co-operatives (SACCOs), with the BoT maintaining overall oversight.
- SACCOs, which do not generally fall under the mandate of the BoT, fall under the mandate of the Co-operatives Act; they are the most common type of MFI. SACCOs are treated like co-operatives, but this does not cater for the savings and the credit aspect of their operations. Unlike those institutions that are regulated and make intermediate deposits, there are few barriers to SACCOs forming.

Key changes and impacts since last year:

- Tanzania lacks dedicated consumer-protection laws, although some of its banking regulations do have components governing audits and accounting standards. The Tanzania MFI umbrella organisation, TAMFI, which now has 51 participating members, has published a Code of Conduct that covers interest-rate and service-cost disclosure,which it is urging its members to abide by.
- There is a fully functional credit-reference bureau (Creditinfo Tanzania), which will provide client credit-rating scores, offer proper risk assessment and credit-risk portfolios for FIs and serve as a base for the data bank go-live project in co-operation with the government.
- There has been increased capacity and supervision by the BoT in its efforts to decentralise its operations. The BoT has opened branches in several states and appointed officials to supervise the FI in the area. This will provide much-needed visibility especially for the FIs not under the direct supervision of the BoT.
- The new Regulation on Agency Banking for banking institutions will provide a guideline for all FIs seeking to enter the agency-banking space.
- In an effort to increase client protection, Consumers International (CI) and the Tanzania Consumers Advocacy Society have collaborated on a financial-literacy project throughout Tanzania.
- There was political unrest early this year in the north of Tanzania, which led many MFIs to halt

operations, but the political atmosphere is back to normal and some FIs, such as Access Bank, are opening branches in the north of the country.

Uganda

Key characteristics of the microfinance business environment:

- Uganda's regulatory environment for microfinance is well established, with defining legislation dating to 2003 and a respected enforcer in the form of the Bank of Uganda (BoU, the central bank). Because of these regulations, most microfinance institutions (MFIs) choose to remain in the informal sector and the bulk of the market is made up of membership of Savings and Credit Co-operatives (SACCOs), which, along with non-governmental organisation (NGO)-MFIs, remain unregulated.
- The Bank of Uganda regulates the microfinance industry. All MFIs are free to set interest rates and minimum-capital requirements are reasonable for each of the four tiers defined by the Microfinance Deposit-taking Institutions.
- While most FIs use the private credit bureau, CompuScan, the high cost is still deterring MDIs, which are operating on very small margins and worry about losing their lower-income clients to the informal sector.

Key changes and impacts since last year:

- The number of registered mobile-money customers increased from 2.9m in 2011 to 8.9m in 2012, but the segmentremains unregulated. The BoU and the Uganda Communications Commission has formed a joint working group and is in the process of drafting interim guidelines for the mobile-money transfer business. The finance minister proposed a 10% tax on cash transfers by mobile phones in his 2013/14 budget speech, and many providers increased their fees as a result.
- A special audit by the auditor-general in 2012 revealed that over TSh2.5bn (around US$970,000) allocated to SACCOswas mismanaged by managers and board members. The lack of oversight of SACCO, and other informal-sector sources of micro-credit means that fraudulent activities are widespread.
- The reach of the credit reference bureau (CRB) was broadened in October 2012. It was permitted to share information between different providers of credit including. The CompuScan exclusivity period also ended at that time, and the BoU is preparing the market to transition from a monopoly CRB provider to a competitive CRB market.
- In September 2012, the BoU took over the management of the National Bank of Commerce (NBC), a tier-1 institution, which had been in financial distress for two years. The NBC filed contempt-of-court proceedings against the BoU, arguing that its takeover was illegal because the NBC was challenging the closure in the Constitutional Court.
- The two political shocks that had an impact on the country in 2011—high inflation and a general election—were not repeated in 2012. ■

Appendix: Methodology and sources

Background

The Microscope is a measure of the regulatory and business environment for microfinance at the national level. Created in 2007 by The Economist Intelligence Unit in co-ordination with the Multilateral Investment Fund (MIF, a member of the Inter-American Development Bank Group) and CAF – development bank of Latin America-, the Microscope takes the form of an index that scores and ranks country performance against an objective standard. Consistent with the interests of the Inter-American Development Bank (IDB) and CAF, the Microscope focused exclusively on countries in the Latin America and Caribbean (LAC) region in 2007 and 2008. Starting in 2009, the Microscope was expanded to include selected countries in the rest of the world thanks to the additional support of the International Finance Corporation (IFC). Now, in 2013, the inclusion of 34 non-LAC countries is made possible thanks to the support of the Center for Financial Inclusion at Accion (CFI) and Citi Microfinance.

The Microscope is an exercise in performance benchmarking of governments and business environments at the national level. Its goal is to identify areas for improvement in microfinance regulation, as well as to evaluate conditions that may be conducive to, or inhibit the growth of, microfinance operations. The Microscope is broadly patterned after other indices that measure the openness of the regulatory, legal and business environment to private sector participation. The best known of these indices is the World Bank's Doing Business programme. Unlike Doing Business, however, there are few quantitative measures of the microfinance environment that can serve as inputs. There are, however, increasingly more indicators of outcomes in microfinance, but these are more properly treated as output measures. For that reason, the Microscope relies to a large extent on more qualitative measures of the microfinance environment. This places a special obligation on researchers to design an index that captures relevant aspects of the environment, and that does so in a defensible and consistent manner. Despite insufficient and often incomplete data regarding the microfinance environment, much effort has been made to combine available secondary sources and primary legal texts with insights and information from sector stakeholders in each national context.

We first developed the indicators and methodologies used to evaluate the microfinance environment in 2007, in co-ordination with MIF and CAF. The real-world relevance of these indicators was evaluated through in-depth interviews with country experts and microfinance practitioners from the LAC region. The indicators were further validated in 2007 and 2008 by their high positive correlation with some microfinance penetration figures. The original index initially included 15 countries in the LAC region and was subsequently expanded to an additional 34 countries around the globe, in co-operation with the IFC. The 2011, 2012 and 2013 versions of the index cover 55 countries.

Sources

To score the indicators in this index, we gathered data from the following sources:

- Personal interviews with regional and country experts, as well as microfinance practitioners and regulators
- An online global microfinance survey for sector stakeholders
- Economist Intelligence Unit proprietary country rankings and reports, especially Country Finance, Country Commerce and monthly Country Reports
- Scholarly studies
- Texts of laws, regulations and other legal documents
- Websites of governmental authorities and international organisations
- Websites of industry associations
- Local and international news media reports

For this year's index, personal interviews were again conducted with microfinance practitioners, experts, policymakers and consultants worldwide, mostly in June to July 2013. Experts' availability for interviews varied widely by region and, in some cases, by country. Overall, almost 180 experts were interviewed. An online survey patterned on the Microscope indicators was also administered to microfinance practitioners, consultants, and regulators worldwide. Three hundred and ninety two stakeholders responded to the survey. Information gathered from the interviews and the survey was used to inform, challenge and confirm country scores and evaluations, as well as to provide additional contacts for interviews.

A continuing goal for this year's Microscope was to increase the number and scope of practitioners interviewed per country, to obtain the widest possible perspective on the microfinance business environment. A large proportion of these interviews were drawn from in-country sources, especially local MFIs, national microfinance networks and regulators, and local offices of multilateral organisations. These additional consultations have allowed for a more nuanced portrait of the business environment for microfinance than was previously possible. As a result of these expanded interview rosters, scores have been re-evaluated for some countries, even in cases where there were no actual changes in formal laws and regulations.

The report produced by the 2013 study continues to draw on new data and secondary sources so as to be able to provide the most up-to-date and in-depth analysis of the microfinance sector in developing countries around the world.

A full list of sources and interviewees for 2013 will be available upon publication of the Microscope in October. Please refer to the full bibliography at www.eiu.com/microscope2013

Scoring criteria

Indicators in the Microscope index are qualitative in nature, and defined through a set of questions. These questions seek to measure not only the laws and standards governing the sector, but also their enforcement and implementation. The criteria are detailed, but ultimately subjective in nature. Consequently, scores are best understood by reading both the scoring criteria and the written justifications provided for each indicator.

For the purposes of this research, MFIs are defined narrowly, as those institutions that provide "microcredit"—that is, loans to non-salaried workers that are typically less than or equal to 250% of gross national income per head (GNI per head). Microcredit operations are carried out by different types of institutions, some regulated by financial authorities and some not.

The indicators and associated scoring criteria for Microscope 2013 are listed here.

Regulatory Framework and Practices

(1) Regulation and supervision of microcredit portfolios: "Are regulations and supervision in the country conducive to microcredit provision by banks and other established financial institutions? For instance, are banks free to set market interest

rates, can they avoid excessive documentation, and are they free from unfair competition from subsidised public programmes and institutions?"

- Scoring: 0=No such regulations exist or regulations are prohibitive; 1=Regulations create serious obstacles; 2=Regulations create at least two such obstacles for MFIs; 3=Regulations create minor obstacles; 4=Regulations present no significant obstacles

(2) Formation of regulated/supervised microcredit institutions: "Are regulations conducive to the formation of new MFIs, including greenfield MFIs, upscaling NGOs, etc?"

- Scoring: 0=No such regulations exist; 1=Regulations exist, but multiple obstacles make formation very difficult; 2=Regulations exist, although there are significant obstacles; 3=Regulations exist with relatively few obstacles; 4=Regulations facilitate formation

(3) Formation/operation of non-regulated microcredit institutions: "Is the legal framework conducive to the formation and functioning of non-regulated microcredit institutions? Do non-regulated institutions take deposits?"

- Scoring: 0=Unregulated institutions are barred from offering micro-loans; 1=Unregulated institutions face many obstacles to establishing operations; 2=Unregulated institutions face some obstacles; 3=Unregulated institutions face only minor obstacles; 4=Unregulated institutions face no significant obstacles

(4) Regulatory and supervisory capacity for microfinance (including credit and other services): "Do regulatory institutions possess an adequate capacity for the regulation and supervision of microfinance? Is supervision truly risk-based and not focused arbitrarily on strictly traditional indicators (for example, collateral)? Does regulatory capacity match or reflect the pace of innovation in non-traditional forms of microfinance that are allowed and that exist in the country (such as insurance, mobile banking, and remittances)? Are data on the industry collected, and are institutional checks conducted when and where relevant?"

- Scoring: 0=Very weak capacity to regulate or supervise microfinance operations; 1=Limited capacity to regulate and supervise; 2=Some capacity to regulate and supervise; 3=Substantial capacity to regulate and supervise; 4=Excellent capacity to regulate and supervise

(5) Regulatory framework for deposit-taking: "Are regulated MFIs permitted to take deposits? Are the regulations reasonable and not overly burdensome? Are deposits (any type; for example, time, sight and contractual savings) only taken by regulated entities? Are regulations, including know-your-client regulations/anti-money-laundering regulations, present without being burdensome? Do they have minimum balance requirements or fees that limit micro-deposits?" This indicator assigns more points to countries that do not inhibit more varied forms of deposit-taking. It also strikes a balance between the need for prudential regulation and the removal of unnecessary obstacles to deposit-taking.

- Scoring: 0=Regulated institutions may not take deposits; 1=Regulated institutions can take deposits, but are limited in the types they may accept and most regulations are burdensome; 2=Regulated institutions may take a reasonably broad range of deposits and regulation is only moderately burdensome; 3=Regulated institutions can take a reasonably broad range of deposits and regulations are prudent, posing only minor obstacles; 4=Regulated institutions can take the widest range of deposits and regulations are prudent, posing no significant obstacles

Supporting Institutional Framework

(6) Accounting transparency: "Are standards of accounting at MFIs in line with international norms (US GAAP, IAS, and IFRS), and are institutions required to undergo regular audits and to publish

financial statements? For regulated institutions, this indicator looks at the existence of regulatory requirements and compliance rates. For non-regulated institutions, this looks at policies and industry bodies that may encourage non-regulated entities to move towards these standards."

- Scoring: 0=Generally established standards for accounting, auditing and publishing financial statements do not exist; 1=National standards exist, but these are thin and rarely effective; 2=National standards exist, but are adhered to only by some institutions; 3=Standards exist for both regulated and non-regulated institutions, although compliance remains an issue; 4=Standards exist and are implemented by most institutions

(7) Client protection: Transparency in pricing: "Does the regulatory system protect microfinance borrowers by requiring transparency on interest rates? Do institutions, both regulated and non-regulated, follow these practices?"

- Scoring: 0= Regulations do not require transparency on interest rates; 1=Regulations are technically in place, but they are not followed or enforced; 2=Regulations are in place, but less than a majority of institutions comply; 3=Regulations are in place and the majority of institutions comply; 4=Regulations are robust and failure to comply is the exception

(8) Client Protection: Dispute resolution: "Does the regulatory and business environment provide for timely dispute-resolution at reasonable cost in the event of disagreements between microfinance lenders and borrowers?"

- Scoring: 0=There is no mechanism for dispute resolution; 1=A mechanism for dispute resolution exists on paper, but few resources, if any, have been devoted to it; 2= A mechanism for dispute resolution exists, but it does not work well in practice (for example, it is too costly, time-consuming, unfair, or is only available to a limited number of potential users); 3=A mechanism for dispute resolution exists, and provides reasonable recourse for borrowers and lenders, but it can sometimes be slow and inefficient; 4=A well-functioning dispute-resolution mechanism exists and is available to most borrowers and lenders

(9) Credit bureaus: "How effective and reliable are credit bureaus for microfinance? For instance, how extensive is the information on prospective borrowers (including those wishing to borrow only comparatively small amounts), and does accessibility provide adequate protection for both borrowers and lenders (for example, privacy standards and preventing "fishing expeditions" by lenders)? Do they cover transactions with both regulated and non-regulated financial institutions, and do they provide "positive" as well as "negative" information about prospective borrowers (that is, defaults and arrears)?"

- Scoring: 0=Credit bureaus do not exist; 1=Credit bureaus are weak and unreliable in most of these ways; 2=Credit bureaus are weak in some of these ways; 3=Credit bureaus are weak in one of these ways; 4=Credit bureaus provide comprehensive information on the whole range of transactions and also include positive information about borrowers (on-time payment history, etc) and adequate protections for borrowers and lenders

(10) Policy and practice for financial transactions through agents (for example, mobile phones, points-of-service, etc): "Are regulations and technology in places that allow innovations in microfinance, such as mobile-phone transactions and POS options? Does the policy framework address risks? Are these agent mechanisms for financial transactions being implemented and used in practice?"

- Scoring: 0=The environment is not conducive and there are no existing agent mechanisms in the country; 1=The environment is being improved, and activities are at a pilot stage; 2=The policy environment is conducive, and a small share of transactions through agents do occur; 3=The environment is conducive, and a moderate number of transactions occur through

agents (although not all possible types); 4=The environment is conducive, and many transactions occur through many different types of agent

Adjustment factor: Stability

(11) Political shocks to microfinance: "Have there been political tensions or other significant changes that would affect the operation of or financial stability of microfinance/microcredit?"

- Scoring: 2= The country has been free of any political developments affecting microfinance operations; 1=Political events have affected microfinance operations in some, but not all, parts of the country; 0=Political events have shocked the entire institutional system in the country, such that all aspects of the microfinance environment are affected

(12) Political Stability: "How important are the internal and external threats to the stability of the serving government or the political system in general?"

- Scoring: The Economist Intelligence Unit's Political stability rating is a category score in its Risk Briefing. It is the average of five individual scored indicators: Social unrest; Orderly transfers; Opposition stance; Excessive executive authority; and International tensions. 0=Extreme instability, while 100=Very stable

Regional representation

This index builds on earlier studies of Latin America and the Caribbean; as a result, countries from that region are numerically over-represented in the global Microscope study (21 of 55 countries). Countries in other regions were selected on the basis of the importance of their existing microfinance sectors or the potential for future market development. The study therefore provides differing levels of geographic coverage: 11 countries were selected from Sub-Saharan Africa, five from South Asia, seven from East Asia, four from the Middle East and North Africa, and seven from Eastern Europe and Central Asia. These differences in coverage impact regional conclusions and should be considered carefully when evaluating index results beyond individual country scores.

Weights

Assigning weights to categories and indicators is a final and critical step in the construction of the index. In previous versions of this index, the three principal categories were weighted based on a consensus of the main research and funding organisations. The categories *Regulatory Framework* and *Institutional Development* were each weighted 40%, while *Investment Climate* was weighted 20%. In the 2011, 2012 and 2013 model, the *Regulatory Framework and Practices* and *Supporting Institutional Framework* categories are each weighted 50%.

While every effort has been made to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd nor the sponsors of this report can accept any responsibility or liability for reliance by any person on this report or any other information, opinions or conclusions set out herein.

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