



**Inaugural address by Chairman MRA in the International Seminar
'Microfinance Regulations: Who benefits?'**

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Chief guest the Honorable Finance Minister, special guests the DFID country representative and the PKSF chairperson, distinguished delegates and other invited guests; a very good morning and heartiest welcome to you all.

We have with us today participants from twenty countries from Asia, the Americas, Africa and Europe, besides local attendees from national and multilateral agencies. I am gratified by the warm response to our invitation to this seminar for sharing ideas on, and for taking stock of approaches and options adopted around the globe in regulating microfinance, the lending of small sums for income generating self-employment pursuits to people of small means with little or nothing to offer as collateral. Microfinance has over the years grown in profile globally as a major financial inclusion tool for combating poverty. The recent global financial crisis and growth slowdown has further underscored the relevance of microfinance in upholding domestic output and demand.

In Bangladesh and elsewhere Micro Finance Institutions (MFIs) have emerged in varied forms under varied circumstances to address the same market failure of lack of access of the poor to financial services. Branch banking is typically geared to serve the better off, business models attempting viable sustained linkage of branch banking with the rural poor by means of self-help groups etc. have met with only limited success. Credit co-operatives have spread in rural outreach but not significantly among the poor. It was the NGOs aiming at bunches of social development objectives, supported by domestic and external donor assistance, that were instrumental in introducing microfinance for the rural and urban poor. Policy support of authorities joined hands with donor support in stimulating rapid expansion of microfinance. In Bangladesh, MFIs accounted for financial services to around 24 percent of the adult population, against around 44 and 10 percent served by banks and co-operatives respectively in 2008. The more successful microfinance NGOs have spun off their microfinance function into separate self-sustaining MFIs, in some cases even into specialized microfinance banks. A large MFI in Bangladesh has repeatedly marketed securities backed by its microfinance assets, the securities were eagerly bought up by local and foreign institutional investors. Not all microfinance NGOs have attained self-sustenance however, in these the microfinance functions remain commingled with their other social development activities, with continuing dependence on donor support.

Coming to the conference theme of who benefits from regulation of microfinance, the short answer is everybody. The MFIs themselves are the foremost beneficiaries. For sustained operation they require continuous mobilization of funds in varying feasible mixes of borrowing, deposit taking and equity. Success in such fund mobilization depends on transparency and performance soundness in respect of loan portfolio management, liquidity and solvency; facilitated hugely by operation under licensing and supervision of regulatory authorities. The rural and urban poor benefit from microfinance regulation, with reliable access to microfinance on fair and equitable terms. Lenders and depositors benefit from microfinance regulation with safer, fraudulence-free investment and savings options in the MFIs. Lastly, the government and the general public also benefit from regulation of microfinance, with added safeguard against systemic instability, fraudulence and money laundering.

Designing appropriate microfinance regulatory regimes is still globally an ongoing work in progress. While differing in specifics according to country circumstances, the general features of the desirable regimes are by now well recognized. Besides addressing concerns about consumer protection, money laundering prevention and systemic stability; a well-designed microfinance regime will aim at nurturing MFIs into gradual growth and maturation as entities in the formal financial sector; shepherding the numerous small operating MFIs towards merger and consolidation into fewer, larger and self sustaining entities. MFIs accepting deposits only from their member-borrowers pose no risk for systemic stability, the deposits in effect being cash collaterals for loans drawn. Non-prudential regulations requiring good governance with clear accountabilities, sound lending practices, fairness in fees/charges and in redressing customer grievances, adequacy and transparency in financial disclosures largely suffice in regulating such non deposit taker MFIs. Clear separation of microfinance functions from other activities as social development NGOs is important for transparency. KYC and other anti money laundering routines for MFI clients, appropriately risk graded, will generally be simpler and less onerous than those for bank clients. Most NGO MFIs in Bangladesh were set up as non-profit trusts. Equity stakes for member borrowers in the MFIs (as in co-operatives and the Grameen Bank) can enhance their sense of belonging, besides enhancing the poverty reduction potential of the MFIs. Regulatory prescription /guidance on ownership structures for MFIs will facilitate their borrowing from banks and other formal financial institutions.

The larger MFIs accepting deposits from non-members can pose potential systemic risks, warranting prudential regulations (capital adequacy, reserve and provisioning requirements, etc.) in line with those for banks and other deposit taking supervised financial institutions. Nurturing and shepherding of the numerous small operating MFIs into larger well-functioning regulated entities will warrant more of close attention of micro credit regulatory authorities over the medium term. In Bangladesh the Microfinance Regulatory Authority (MRA) chaired by Governor, BB (also the head of the country's apex financial sector regulator), came into existence in July 2006. Operating MFIs applying for licenses ran into

thousands, not counting those failing to apply in time. Of these, only around five hundred could be issued license in the first phase, based on eligibility criteria including a minimum required size. Applicant MFIs not meeting the licensing criteria were allowed time up to June 2009 to fulfill the requirements including minimum size. MFIs subsequently qualifying for license numbered in tens rather than hundreds, and the MRA is now faced with the choice of weeding out a very large number of non-compliant but operating applicants, or to allow them further time and more hands-on guidance for merger and consolidation into required minimum size. Encouraging the larger, more efficient MFIs to subsume operations of smaller ones as subsidiaries could be among the options meriting consideration.

The relatively higher interest rates and charges/fees remain a persistent, biting criticism of microfinance, albeit more from populist political authorities rather than from actual borrowers. The higher costs involved in supervision of small loans to borrowers in dispersed locations cannot be wished away or regulated away; unduly obstructing cost recovery will only hurt sustainability of the MFIs, narrowing access of the poor to microfinance loans. Regulators and government authorities can however encourage and support MFIs in minimizing supervision costs, to the extent possible adopting remote loan delivery and recovery mechanisms in partnership with mobile phone companies and IT platforms offering card based financial service delivery. BB is actively encouraging such partnerships. Apart from possible cost minimization, consumer protection aspects of microfinance regulation will also help, with vigilance against unfair, extortionate charges or fees.

Issues facing microfinance regulators in other countries are unlikely to be vastly different from those in Bangladesh mentioned here, and I believe the deliberations in this seminar will be helpful in drawing up clearer roadmaps for microfinance regulation in Bangladesh and elsewhere. Microfinance regulators in country jurisdictions can take advantage of the technical expertise and assistance available from multilateral forums like the CGAP, bilateral development partners, and globally active philanthropies. I am grateful to UKaid for support in holding this international seminar, and I take this opportunity to thank the MRA staff team working tirelessly for successful holding of this major event. Wishing all success for the seminar and reiterating my gratitude to the Honorable Finance Minister for gracing the occasion with his presence, I conclude here with thanks to all for your patient attention.

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