EUROPEAN REPORT ON DEVELOPMENT

MICROFINANCE REGULATION AND SOCIAL PROTECTION

Thankom Arun, *University of Central Lancashire, University of Manchester & IZA, Bonn*
Victor Murinde, *University of Birmingham*

Paper prepared for the Conference on "Experiences and lessons from social protection programmes across the developing world: what role for the EU?", organised by the European Report of Development in Paris, France, 17-18 June, 2010.

European University Institute
Robert Schuman Centre for Advanced Studies

MOBILISING EUROPEAN RESEARCH
FOR DEVELOPMENT POLICIES

ABSTRACT

Arguably, microfinance provides social protection for the vulnerable by enabling them to access finance, create assets and avoid backsliding into poverty traps. This paper aims to survey the status quo of regulation of microfinance services in Africa and to map out patterns of microfinance regulation. The paper explores the relationship between regulation and outreach in microfinance provision in Africa, with the implication that outreach enhances the provision of financial and social protection for the poor. The performance of Microfinance Institutions (MFIs) depends largely on MFI regulations, which eventually affect social protection in several ways mainly through its effectiveness and outreach. We conclude by pointing out the need for closer engagement between government and microfinance institutions in developing required regulatory legislations in Africa.

Thankom Arun
University of Central Lancashire, University of Manchester & IZA, Bonn
tgarun@uclan.ac.uk

Victor Murinde
University of Birmingham
v.murinde@bham.ac.uk

1. Introduction

In recent times, there has been an enhanced recognition of the contributions by a broad based financial system in developing an effective social protection strategy. The UN approach extends the role of social protection to securing basic needs as a pre-condition for human and social development (United Nations, 2000). As a public good, access to financial services enable people to participate in the benefits of a market-based economy analogous to access to safe water, basic health services and primary education (Peachey and Roe, 2004). Access to financial services forms a fundamental basis for the sustainability of many of the essential interventions and is a critical contextual factor with a strong impact on the achievement of the Millennium Development Goals (Littlefield, Hashemi and Morduch, 2003). However, in many countries, access to financial service is limited to a small section of the population.

The current thinking among development stakeholders, including governments and non-governments, is that microfinance offers significant opportunities for a broad based financial system, poverty reduction and economic re-generation and development strategies (see, for example, Yunus, 2003; Banerjee and Duflo, 2007; Arun and Hulme, 2008; Ahlin and Jiang, 2008; Imai *et.al*, 2010). Over the years, the microfinance industry has introduced a range of product lines in loans, savings and insurance to low income groups in developing countries. The development of the microfinance sector is an answer to the notion that financial services are not an option for low-income groups due to the higher associated costs.

There are different kinds of microfinance programmes that provide opportunities to mitigate risk through *ex ante* strategies (based upon diverse economic activities and conservative production and/or employment opportunities) and *ex post* strategies (for example, consumption smoothing by borrowing, depleting and accumulating non-financial assets), hence, providing social protection measures to deal with vulnerability. In many ways, the microfinance sector provides social protection for the vulnerable by enabling them to access finance, create assets and prevent people from sliding back into poverty traps. However, the need to identify the extent of trade-off between dual objectives and the multiplicity of pathways imperatively calls for systems of checks and balances for the operations of MFIs[2] (Arun and Annim, 2010), as an indication of the need for regulation in the sector.

The regulatory concerns in the microfinance sector lie in the special nature of these institutions, mainly to address the needs of those who are not in the formal financial sector. Most of the microfinance clients are subjected to high levels of uncertainties in the sector, such as innovative procedures and high operating costs (Arun, 2005). The arguments for regulation in microfinance is primarily about ensuring systemic ability and protecting depositors.[3] The enhanced private investment in the sector has some benefits to the sector, but this also raises more challenges with regard to the regulatory practices in microfinance. In the context of recent financial crisis, many of respondents to the CGAP survey (2009) indicate that the liquidity drought is hurting, with smaller institutions suffering more acutely than their larger counterparts do. The financial failures in the sector could lead to a serious impact on the financial system by affecting the other financial institutions (who lends money to microfinance institutions) and the public confidence (*ibid.*, 350), and affecting the social protection fabric itself.

This introductory section sets the context for the paper. Section 2 of the paper assesses the current state of the microfinance industry at a global level and in Africa

[2] The discourse on poverty lending vis-à-vis financial system approaches to microfinance moved to a consensus in the late 1990s towards financial sustainability arguments. However, the heterogeneity of MFIs indicates that the future of microfinance is unlikely to follow a single path (Cull et al; 2009).

[3] The need for regulation of economic activities is justified in the economic literature as a policy instrument to minimize the effects of market failures, and the issue has gained substantial attention in the course of reform measures in developing countries (Armstrong, Cowan and Vickers, 1994; Majone 1996)

specifically. Furthermore, we dwell on the perspective of the regulation of microfinance institutions (MFIs) both globally and in Africa in particular. Following this, the paper deals with understanding the rationale behind regulation, the key types of regulation and the circumstances in which regulation is implemented. Here, we take a critical view of the relationship between microfinance regulation indicators and social protection. Specifically, we conceptualise social protection using the Social Protection Index (SPI). We analyse a sample of data of microfinance institutions (MFIs) from 10 African countries, and establish that MFI regulation directs the performance of MFIs and, in turn, affects social protection. This investigation explores the relationship between regulation and outreach in microfinance provision in Africa, with the implication that outreach enhances the provision of financial and social protection for the poor.

We conclude by indicating some emerging concerns between regulation and outreach in microfinance services in Africa. We also use the evidence to propose some prototype regulatory framework for a kind of microfinance service industry that can take the place of social protection to a large extent and therefore serve as much more effective strategy for reducing poverty.

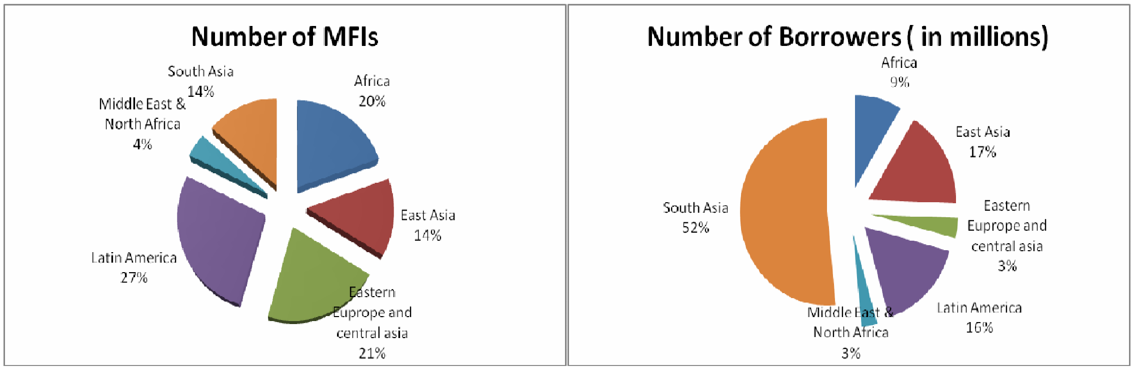
2. Microfinance and its role in Africa

Traditionally, a large percentage of people have been ignored by the banking sector and are deprived of organised services such as loans, insurance, remittance and saving instruments. Based upon the access to finance composite index developed by Honohan (2007), sub-Saharan Africa (SSA) has the lowest proportion (on the average, just about a fifth of the population have access to finance). It is then apparent that, one of the recent UN reports argues that the overarching goal of financial inclusion requires the availability of a range of financial institutions offering a range of products and services at reasonable costs supported by legal and regulatory infrastructure (UNCDF, 2006). In most scenarios, the poor are not seen to be "bankable" by the formal financial sector and are un-insurable for the wide variety of risks that they face (Morduch 1999; Dercon 2002). People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks.[4]

Microfinance offers a mechanism by which, organisations such as banks, non-governmental organisations (NGOs), non-bank financial institutions (NBFIs) and governments offer financial services (loans, savings, money transfer services and micro insurance) to the poor. In Africa, during the past two decades, microfinance schemes emerged as an alternative to ensuring access to financial services for small borrowers (Aryeetey, 2008). Due to the limited success achieved by top-down policies and programmes, as well as the non-sustainability of previous government-backed credit programmes specially designed for the poor (Steel and Andah, 2003), many countries in Africa have followed the microfinance pathway.

[4] CGAP- http://www.cgap.org/p/site/c/template.rc/1.11.947/

Figure 1: Number of MFIs and number of borrowers – Africa in a global context

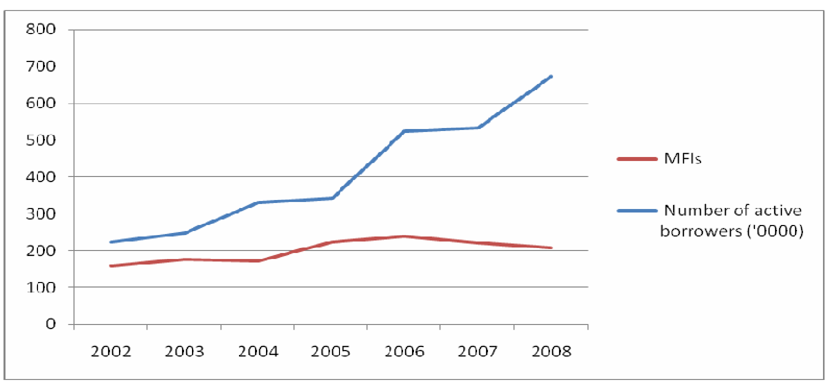


Source:MixMarket - http://www.themix.org/sites/default/files/Microfinance%20at%20a%20Glance%202009-12-31.pdf

The African region is home to around 800 million people, and almost half of the region is rural with agriculture as the biggest occupation. The region lacks basic infrastructure such as roads, electricity and communication aids. The region has been steadily improving its economic state with the GDP rising from 3.2% in 2002, to the projected 6.7% in 2007.[5] The microfinance sector represents a diverse picture in Africa – Credit Unions, Credit only institutions, and donor projects with a microfinance component. However, the "parallel model" approaches commonly used in African countries "integrates disadvantaged clients into the formal financial system through building up self-reliant groups that can reduce costs and risks to banks in dealing with small savers and borrowers" (Bennet, 1998, p.109).

As shown in Figure 1 below, Latin America leads the microfinance sector with maximum number of MFIs (384) while Africa ranks third with 275. In terms of the number of borrowers (which is an indication of the outreach of the MFIs) South Asia leads the charts with more than half the number of borrowers worldwide. Africa (9%) lags behind other regions, such as East Asia (17%) and Latin America (16%). However, since 2002, there has been a steady improvement in the African MFI sector. Figure 2 indicates that the rate of increase in the number of MFIs is much lower than the rate of increase in the number of active borrowers, which clearly indicates the better performance and efficiency of the MFIs.

Figure 2: Recent growth of MFI sector in Africa



Source: http://www.mixmarket.org/mfi/region/Africa/2009/

In spite of the growing number of MFIs and active borrowers, there is genuine concern regarding whether the region has achieved its full potential? To date, the microfinance industry in Africa contributes to merely 9% of global MF borrowers.[6] Again,

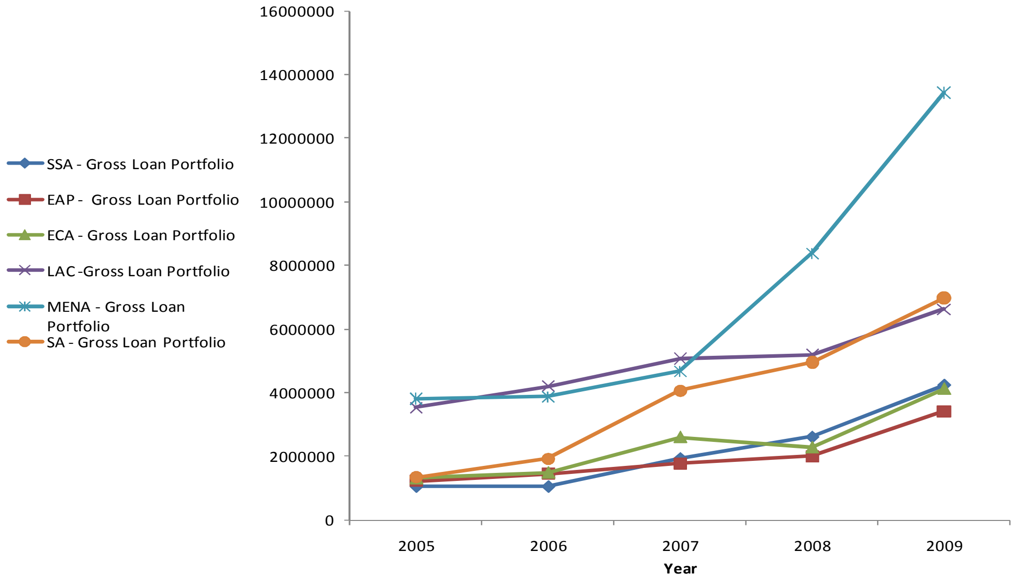
5 Regional Economic Outlook : Sub-Saharan Africa -- [Washington, D.C.]: International Monetary Fund, 2007.

6 MixMarket data

relatively few MFIs have managed to reach a higher scale of more than 25,000 clients in Africa, and the provision of MFIs mainly focuses on the cities, towns and major rural trading centres (Arun and Hulme, 2008). Only 71 MFIs out of 439 who reported their performance to CGAP have more than 25,000 borrowers.

Since 2005, the size of MFIs (measured by the gross loan portfolio) in SSA has shown an increasing trend and inched passed EAP in 2007 and ECA in 2008 (Figure 3 below). This indicates an increase in outstanding loans in the hands of microfinance clients.

Figure 3: Regional Trend of Gross Loan Portfolio



Source: http://www.mixmarket.org/mfi/benchmarks

In addition to the above concern, it is important to verify the sustainability of MFIs in the region. The situation currently seems gloomy as benchmark indicators[7] reveal that SSA is the only region that has constantly failed to show a financial self-sufficiency index of more than 100 percent. This presents a challenge for the protection of poor households and thus exploring the idea of regulation of MFIs is right. Table 1 lists the top 16 out of 439 MIFs in Africa, who contribute to more than half (54%) of number of total MFI borrowers in Africa.

One of the main reasons for the slow growth of this sector is due to some of the unfortunate experiences of microfinance in some countries, where other agents, especially *ponzi* scheme actors (people such as Gideon Mwiti Irea linked to the collapsed Kenya Akiba Microfinance, offered a monthly interest rate of 16 per cent), have undermined the microfinance revolution[8]. In Nigeria, the Microfinance banks started to compete with formal institutions and were detached themselves solely from the core constituency that led to liquidity challenges and other management capacity concerns. Also, in South Africa, the controversy that emerged with the "go-banking" contractual relationship between NEDBANK and pick 'n' pay created doubts as to the reliability of the new financial schemes that genuinely aim at expanding access to finance. Most of these concerns are due to the lack of adequate regulatory practices in the sector. The industry is largely either unregulated or self-regulated through social capital contracts. In many countries, the governments had followed a *laissez-faire* approach in regulating microfinance institutions (Arun, 2005). However, recently, the issues of regulatory

---

[7] Generated from the MixMarket (www.mixmarket.org/mfi/benchmarks)

[8] However, Kenya has introduced tighter legislations in the sector and became an example of how to develop a regulatory framework with productive engagement with major players.

concerns of the microfinance sector attract more interest than usual from the policy-makers and many countries, particularly in Africa.

Table 1: Total number of borrowers in selected MFIs in Africa, 2009

MFIs in Africa with number of borrowers	
MFI Name	**Total number of borrowers**
ACSI	710,576
Capitec Bank	638,616
Equity Bank	542,249
Al Amana	472,339
DECSI	464,622
OCSSCO	364,584
Zakoura	326,766
ASBA	219,662
KWFT	208,010
LAPO-NGR	200,115
FBPMC	177,869
Lead Foundation	156,833
FONDEP	138,514
ADCSI	112,259
PRIDE - TZA	106,082
ABA	100,807
Total	4,939,903
Total for Africa	9,160,535
% share	54

Source: Mixmarket

A regulated microfinance sector provides an enabling environment for enhancing financial outreach (attracting extreme poor by reflecting upon the supply-demand mismatch among the products, etc, see Arun et al, 2005) and the growth of microfinance institutions, which, in turn, supports a broader social protection agenda. Perhaps, the regulatory requirements may bring forth a better understanding of the financial service preferences and behaviour of the poor and the poorest that is still needed to expand the scope of microfinance services, particularly in addressing concerns about the welfare implications of MFIs (Rutherford, 1999; Morduch, 1999). Moreover, MFIs are significantly different in their risk profiles, such as risks on credit, interest, and liquidity, which provide a further argument for regulation and rapid integration with practices such as prudential regulation (Arun, 2005, p. 351).

Table 2: Indicators of MFIs in Africa in a global context (2008)

	Africa (Sub-Saharan)	East Asia and Pacif ic	Eastern Europe and Central Asia	Latin Americ a	Middle East & North Africa	South Asia	Total
Number of MFIs	275	194	292	384	60	190	1395
Number of Borrowers (in millions)	7.5	14.6	3	14.1	2.5	44.4	86.1
Number of voluntary Savers (in millions)	18	25.7	5.2	14.4	0.1	32.4	95.8
Gross loan portfolio (USD million)	3335	818 5	10065	16739	1178	4697	44199
Voluntary Savings (USD million)	1890	645 7	899	6674	0	203	16124

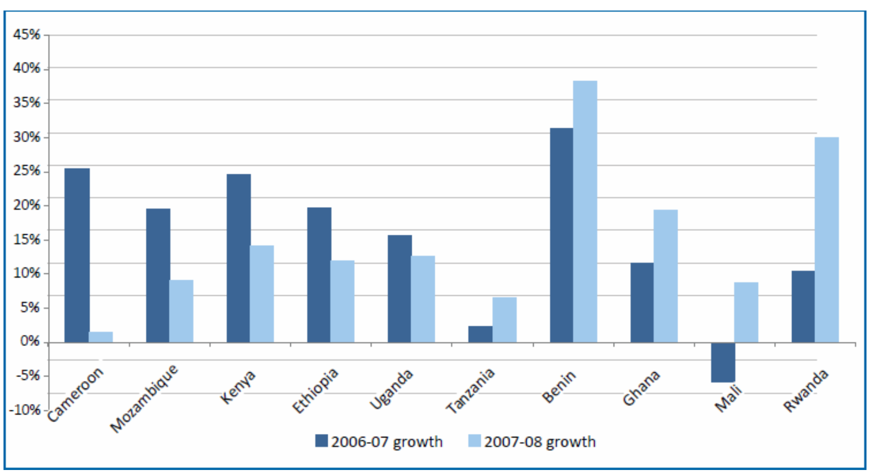
Source: Mixmarket

Perhaps, which type of MFI matters, given that MFIs may differ, depending on their legal or management structures: for example, government owned MFIs, such as the rural credit society in China, the member-owned credit society in West Africa, NGOs worldwide, and commercial banks. The services offered by MFIs depend on the legal structure of the institutions; for example, the services may include secure savings, loans for various reasons, such as starting a business, emergencies, the education of children, housing, insurance, remittances and money transfers, and others.

Table 2 shows the comparison of SSA's share in the world MFI industry. In line with the current financial crisis and its expected impact on the MFI sector, the growth in the number of borrowers fell from 22% in 2007 to 20% in 2008. This had a massive impact on the gross loan portfolio. It shrank to less than half from US$45.4 billion to US$20.1 billion.

As shown in Figure 4, although the MFI is growing in terms of its outreach in the SSA region, the range of outreach to borrowers in various countries is quite large with the highest being 28.4% of all borrowers in SSA being from Ethiopia, while only 2.6% of all SSA borrowers come from Cameroon.

Figure 4: Growth in MFI activity in selected African countries



Source: MIX Market, 2006-2008. Results based on medians.

In spite of the overall SSA region showing a dip in borrowers in 2007-08 over 2006-07, countries such as Tanzania, Ghana, and Rwanda showed a higher growth. The most conspicuous of the countries registering growth is Mali, which recovered from a negative growth of around -7% to almost 7%.[9] As expected, the MF market structure in the region varies with macro-economic imbalances and other structural factors.

Table 3: Top 10 countries in Africa by borrowers

Top Ten Countries By Borrowers			
Number	Country	Borrowers	% of African region Borrowers
1	Ethiopia	1,840,788	28.4
2	Kenya	1,093,515	16.9
3	South Africa	722,559	11.9
4	Ghana	354,293	5.5
5	Nigeria	348,750	5.4
6	Tanzania	270,069	4.2
7	Uganda	262,106	4
8	Mali	218,291	3.4
9	Senegal	217,891	3.4
10	Cameroon	165,470	2.6

Source: MIX Market 2008, results are totals

Table 3 gives a snapshot of the top countries in SSA in terms of their outreach (borrowers). The absence of retail MFI capacity is the most dominant constraint in expanding the outreach of financial services in Africa (ADB, 2006). According to this study, the possible constraints in expanding outreach are: (1) extending access to rural areas in a cost effective way; (2) the impression that MF is a social system of resource transfers rather than a part of the financial sector; (3) the lack of institutional infrastructure; (4) unfavourable policy environment for sustainable growth of MFIs; and (5) the inability to raise finance from formal sources. Broadly, these factors indicate lack of coordinated efforts between government and microfinance institutions, and appropriate legislations in the African microfinance sector.

3. Regulating MFIs in Africa

In general, the regulation of banking and other financial services in Africa is problematical. African countries have been in a transition process from Basel I to Basel II, but now, in the post-crisis era, Africa find itself at a crossroads (see Murinde, 2010). More so, regulating the microfinance industry remains a challenge for many countries (see Arun, 2005). Recently, WSBI (2008) has argued in a position paper that any type of regulatory practices in the microfinance sector needs to support the enlargement of access to finance, to guarantee a level playing-field between all microfinance providers and to protect customers. The challenge, however, lies not in the regulation, but in the need to differentiate the MFIs from formal sector banks. The aim of regulating microfinance is twofold (Arun 2005): to secure the interest of the vulnerable and uneducated consumers, and to ensure the smooth operation of the industry and thus safeguard the financial system as a whole. The regulation provides a secure climate to consumers. But there is also a danger of hampering the growth of microfinance; for example, if there is a cap on the interest rates charged by the MFIs, the consumer is protected from any unwarranted high rate. This also makes the operations of the MFIs impractical due to the low income and high costs of operating under the interest rate cap. This may have an adverse effect on the MFIs and would certainly stop growth.

For this matter, it is useful to distinguish between prudential and non-prudential regulation of the MFI industry. The former is aimed specifically at protecting the financial

[9] MIXMarket reports 2008.

system as a whole, as well as protecting the safety of small deposits in individual institutions.[10] But prudential regulation is much complex and fairly expensive to implement. It usually requires the governments to supervise and ensure the solvency of the MFIs. This type of regulation includes the capital adequacy or liquidity of the MFIs thus ensuring the interest of the consumers and the banking system as a whole, should the MFI become insolvent. MFIs which accept deposits from the consumers are governed by prudential regulation, while non-deposit seeking MFIs do not need to be. Since MFIs involved in lending-only activities do not pose any danger in cases of insolvency, they are not subject to prudential regulation, and, for such types of MFIs, there is a much simpler and less complex set of regulations termed as non-prudential regulation. In general, non-prudential regulation refers to a set of regulations, which do not deal with the depositors' safety, or the well-being of the financial system as a whole. The regulations are much simpler and do not need to be implemented by specialised financial authority or by governments. These regulations are often self-executed and include instances of declaring the people who are in control of the MFIs and clearly disclosing the rates charged and the terms and conditions.

This demarcation of prudential and non-prudential regulation helps to make the process of "regulation" much simpler and manageable. There is no point in exposing non-deposit seeking MFIs to prudential regulations since these institutions do not pose any threat to the financial system. However, the non-prudential regulations will not do any good to the consumers when they invest with a MFI prone to insolvency. Thus, understanding the nature of the MFI and exposing it to the proper regulation saves a lot of time, money and government interference.

There could be an argument that exempting lending MFI from prudential regulation could be disastrous, since almost all the lending by these institutions is sub-prime lending. In the recent context of the sub-prime lending crisis, it may be argued that even the lending-only MFIs should be protected by prudential regulations. This argument can be countered by the fact that, although all the lending by the MFIs is sub-prime due to the nature of its intended clientele, the entire lending portfolio of MFIs is a very small part (in value) of the total lending including that of the commercial banks. Hence, there is no real danger to the economy even if certain MFIs run into trouble. On the contrary, by not subjecting MFIs to prudential regulation, a lot of money and scarce resources, such as the time of the competent financial authority and the government are saved. In addition, this reduces the entry barrier for the potential MFI entrants in the market, thus promoting the microfinance sector.

Table 4: Regulatory framework of MFIs in SSA

Type of Legislation	Countries (names in bold indicate a change occurred between 2007 and 2008)	
Specialized Microfinance Laws (29)	**Burundi** CEMAC Countries (6)[7] Comoros DRC **Djibouti** Ethiopia The Gambia Guinea	Kenya Madagascar Mauritania **Mozambique** **Rwanda** **Sudan** Uganda **WAEMU Countries (8)** Zambia
Drafting Specialized Microfinance Laws (5)	**Cape Verde** **Liberia** **Malawi**	**Sierra Leone** **Zimbabwe**
MFIs implicitly or explicitly fall under the broader banking or non banking financial institutions legislation (15)	Angola Botswana Ghana Lesotho Liberia Malawi Mauritius	Namibia Nigeria Sao Tome Sierra Leone Somalia South Africa Tanzania Zimbabwe
No Legislation/No Framework (3)	Eritrea Seychelles	Swaziland

Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

[10] See the guiding principles on regulation and supervision of microfinance by Christen, Lyman and Rosenberg (2003).

Akin to many developing countries, SSA also regards the regulation of MFIs as a serious task (see Christen, Lyman, Rosenberg, 2003). The policies on regulations are distinctly moving towards higher transparency, more rigorous standards and the adoption of a new law regulating MFIs in the West Africa Economic and Monetary Union (WAEMU)[11]. Except for three, all the countries in SSA have specific microfinance laws that cover the MFIs and financial co-operatives, but not the commercialised banks. Only Eritrea, Swaziland and the Seychelles do not have any legislation to cover microfinance. Table 4 highlights the current state of the regulatory framework of MFIs in the SSA countries.

In Africa, there are a large number of MFIs which operate without any kind of formal registrations and some are in a phase of expansion with specific licensing rules. Because of the large variety in the type of institutions, it has been suggested that institutions be fitted into a tiered structure that provides opportunities and incentives for MFIs to graduate between tiers, and creates the appropriate regulatory requirements for the different type of institutions (Meagher, 2002). This approach has benefited the development of sustainable microfinance in some countries - For instance, Susus of Ghana and SACCOs in East Africa both belong to both these categories according to their size of operations by clearly identifying pathways for MFIs to become legitimate institutions and to gain access to financial services from commercial markets.

Table 5: Emerging Regulatory frameworks in Africa

Regulatory Frameworks	Countries	
E-Money Guidelines/ Laws (25)	Botswana CEMAC Countries (6) DRC Ghana Mauritania Namibia	Nigeria Rwanda South Africa Tanzania Uganda WAEMU Countries (8) Zimbabwe
M-Banking Guidelines/ Laws (7)	Botswana Ghana Nigeria South Africa	Tanzania Uganda Zimbabwe
Use of Agents Guide-lines/Law (18)	CEMAC Countries (6) DRC Ghana	Kenya South Africa WAEMU Countries (8)

Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

Technological advances have brought in new challenges for the regulations to be as up to date as ever. With the emergence of branchless banking, real-time gross settlements and mobile banking, just like the commercial banks, the MFIs, too, need to have regulations in place. The authorities in SSA are gearing up to embrace these technological changes and have specific laws and regulations to tackle the potential threats posed by these new channels, which are summarised in Table 5. In the context of recent financial crisis, regulators have identified the need for the institutional strength of MFIs and their ability to get through the crisis.

[11] http://www.themix.org/sites/default/files/2009%20Africa%20Microfinance%20Analysis%20&%20Benchmarking%20Report.pdf.

Table 6 – Risks in the Sector – Perspective from Regulators

Biggest Risks	Fastest Risers
Transparency	Too little funding
Credit Risk	Competition
Corporate Governance	Corporate Governance
Management Quality	Credit Risk
Depositor Confidence	Political Interference
Reputation	Macroeconomic Trends
Competition	Refinancing
Liquidity	Depositor Confidence
Managing Technology	Fraud
Political Interference	Interest rate

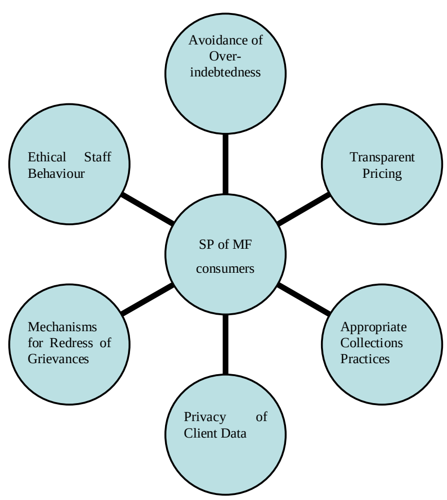
Source: Microfinance Banana Skin 2009

The nature of these concerns highlights the need for specific regulations in the sector, and more closer involvement between government and industry in developing regulations. The lack of specific MF regulations affects the viability of the business model, undermines depositor and investor confidence, and exposes MFIs to political interference (Microfinance Banana Skins 2009). Dieudonné Gnanvo, the Director of RENACA, the Benin savings bank network, said that the "new West African regulations do not conform to the realities on the ground, and could introduce new constraints on the development of the sector" (ibid).

4. Microfinance regulation and social protection

The social protection trajectory of sub-Saharan Africa is heavily dependent on donor design and financing, in comparison to other regions in the World (Barrientos and Hulme, 2008). The social protection institutions are deeply embedded, informal systems of social protection, especially in rural areas (ibid, p.319). Broadly, microfinance regulations seem to be a public intervention measure to assist and protect individuals to manage risks and deposits better, and support the arguments regarding access to finance and development. The microfinance regulations seem to follow the social risk management framework that adds the issues of macro-economic stability and financial market development in addition to the social protection measures (Holzmann and Jørgensen, 2000).

Figure 5: The social protection of microfinance consumers



Source: Adapted from Forster, Lahaye, and McKee (2009)

Social Protection (SP) serves a dual purpose - one is of assisting the poor to survive in adverse conditions, and the other is that of promoting a better lifestyle for these consumers. The SP policies vary from region to region and are dependent on a range of factors such as the culture and needs of the local residents. These policies need to consider both the short-term and long-term impact of SP policies on targeted/general customers/programmes.[12] According to a consultative guide (Forster, Lahaye, and McKee, 2009), there are six principles that drive the SP of microfinance consumers, which are summarised in Figure 5. We discuss each principle below:

1) Avoidance of over-indebtedness

There could be two perspectives on this issue. On the one hand, the low-income borrowers will take on more credit and finally end up being over-indebted and unable to repay. On the other hand, due to competition in the market, the lenders may seek to increase the risk[13] at the cost of providing more credit than the borrowers are able to repay. The recent Microfinance Banana Skins (2009) has identified credit risk as the biggest risk faced by the MFIs globally. The African response precedes credit risk with institutional issues such as weakness in management, staffing and governance. However, the over-indebtedness of clients continues to be a major problem in the microfinance sector. According to Peter Wall, executive director of the Microfinance Information Exchange (MIX), which compiles data about the global MF industry, credit risk is rising "across the chain, from micro-borrower through MFI and even among MFI lenders. The chain is increasingly being broken at different points" (*ibid*).

2) Transparent pricing

Transparent pricing becomes a moral (and, in many cases, legal) responsibility of the MFIs to disclose the rates and all the costs explicitly since Microfinance is devised to protect the poor and vulnerable.[14] Until now, the consumer protection awareness in Africa is in its infancy, but is growing.[15] Ensuring transparency and fair treatment of clients is the key for good lending practices. This is even more important in the context of new services that use extensive technology applications. Transparency practices improve the funding scenario as well. An Italian microfinance investor said: "The limited availability of funding will trigger a greater effort towards transparency, information sharing and clear governance" (*ibid*).

3) Appropriate collaborative practices

The guide proposes diligence and a risk-based approach in debt-collection practices. Bank Negara Malaysia uses such an approach complimented by financial education and market intelligence to highlight products and practices posing undue risk to consumers, such as aggressive credit-card marketing or the outsourcing of debt-collection.[16]

Civil groups may play a significant part in such financial protection. Consumer Association of Penang (CAP) handles complaints from the public on a wide variety of issues. CAP's legal section provides legal advice to customers, handles public-interest cases, and represents communities in need of legal assistance. CAP also provides educational web and print resources in several languages. Recent examples of finance-related complaints posted on its website include problems with transparency of fees, debt-collection practices, rising credit-card debt, and actions of unregulated, private credit bureaux.[17]

---

12 Dag Ehrenpreis, UNDP 2006
13 http://www.cgap.org/gm/document-1.9.35203/Microfinance%20Banana%20Skins%202009.pdf.
14 Protecting Low-Income Consumers: An interview with CGAP microfinance expert Kate McKee, July 15, 2008.
15 CGAP http://www.cgap.org/p/site/c/template.rc/1.26.4412/.
16 CGAP Consumer Protection Policy Diagnostic Report, Malaysia 2009.
17 CGAP Consumer Protection Policy Diagnostic Report, Malaysia 2009.

Rejection or modifications of high-risk cases not only reduces lender costs, but also saves the borrowers from worrying about coercive and abusive collection visits. Risk assessment can be both regional and case-to-case. For example, it is found that, in Latin America, a person who does not consume alcohol is more likely to take the repayment seriously. Similarly, someone who attends religious services daily/weekly is thought to be likely to follow the repayment schedule faithfully (see Schreiner, 2003).

4) Ethical staff behaviour

The staffs of MF institutions are required to behave ethically and it is the responsibility of the managements of MFIs to ensure that adequate measures are taken to detect and to curb unethical and corrupt behaviour. The need for this client protection measure is widely recognised. In 2008, Deutsche Bank along with many others, laid out their agreement on the need for industry wide code of ethics for microfinance (see Forster, Lahaye, and McKee, 2009). While unveiling a draft Client Protection Principles, Elizabeth Littlefield, CGAP CEO was quoted as saying: "A broad coalition is forming and investors are signing on to address issues of investor ethics, accountability, and responsibility."[18]

5) Mechanisms for the redress of grievances

It is imperative that MFIs have in place timely and responsive mechanisms for complaints and problem resolution for their clients. In Nigeria, the Consumer Protection Council includes, amongst its core functions, a "speedy redress and awareness campaign" (see Access to finance in Nigeria, Isern *et al*, 2009). Since the poor consumers have limited access or options for redressing grievances, there should be a protective approach on the part of supervisory authorities to establish and enforce fair standards. The absence of simple and practical means of redressing their issues leaves the inexperienced MFI consumer vulnerable to a balance of power that unduly favours the MFIs. In poor countries, such as Cambodia, powerful local village leaders may play the role of advocate and mediator in order to fill the gap, as do elected commune councils, but their effectiveness depends on how well educated they are on legal issues (see CGAP Consumer Protection Policy Diagnostic Report, Cambodia 2009). In India, the Reserve Bank of India (RBI) has stipulated to regulated and authorised institutions that there should be well-laid grievance redress procedures backed by an efficient redress mechanism. According to RBI, this should be the first point of reference for any customer to lodge a complaint or register a grievance.[19]

6) Privacy of client data

There is a need to respect the privacy of client data and a need to require the permission of the consumer before using the data for any other purposes. Data Privacy is one of the specific areas of investigation for CGAP in their meetings with policy-makers, regulators, banks, specialised financial institutions targeting low-income customers, mobile network operators, technology companies, other knowledgeable parties, and donors, all of whom are often engaged in long-term advisory relationships with the host country.[20] The new techniques such as branchless banking and technologies such as mobile banking in microfinance pose a major threat to the data privacy of MFI consumers (see CGAP; Tim Lyman, 2009).

As seen earlier, in the last few years, there has been significant growth in the Microfinance sector. This sector growth attracted many of the commercial entities, which further increased the outreach of the services. However, this shift in focus of

[18] Responsible Finance, 2008 - http://www.cgap.org/p/site/c/template.rc/1.26.2902/.
[19] http://www.cgap.org/gm/document-1.9.42213/India_Consumer_Protection_Diagnostic_Report.pdf.
[20] http://www.cgap.org/p/site/c/template.rc/1.26.1472/.

microfinance landscape gives the issue of SP even more importance in the sector to safeguard the consumers' interests.

A significant factor that has notable impact on the social protection is the regulations of microfinance. In SSA, several countries have now started paying attention to the MFI regulations and to social protection.[21] However, less than a dozen countries have consumer protection measures, and even fewer have consumer protection measures for financial consumers. Only two countries – South Africa and Mauritius - have consumer protection for the consumers of financial institutions. In some countries, there is a specific language requirement for MFIs.[22]

In a draft bill for regulation of microfinance in South Africa (See – microfinance analysis and benchmarking report – sub-Saharan Africa 2009), it was made mandatory to ascertain the borrower's ability to repay. The critics of this bill were of the opinion that this process would burden the MFIs with additional expenses and would make many of them opt out due to non-sustainability of running the lending programme. This would, in turn, reduce the competition amongst the MFIs and drive the interest rates higher. This example[23] indicates how a MFI regulation can have an impact on the social protection. This impact of MFI regulations on social protection and the inter-relation of MFIs and social protection are further elaborated in the next section.

At least three factors have a major impact on the effect of microfinance regulations on social protection. The first is the cost of implementation. The cost of implementing the regulations affects the way the in which MFIs move ahead in terms of their outreach and the segments of society served. The cost can also have implication on the average loan size of the MFIs. Reduced outreach, targeting specific consumer segments (in other words, avoiding the rest of the segments) and concentrating on increased average loan-size means a smaller number of people being served. This also results in the extreme poor people being neglected, one of the main concerns of the existing microfinance operations.

As explained earlier, microfinance regulations are directed towards the protection of MFI consumers and the financial system. But recent studies show that, in practice, microfinance regulations tend to have a somewhat negative correlation with the outreach and profitability (Cull et al., 2009). This effect when further investigated indicated that the outcome of such regulations depends on the motivation of the MFIs. Implementing the regulations is a cost to the MFIs. The profit-oriented MFIs adjust this cost by reducing and limiting their outreach to the market segments which are the most profitable (secured, high value, etc.). Thus, the impact on SP is limited to certain segments only. On the other hand, MFIs which are not motivated by profit (usually, funded by non-commercial vehicles such as donors) do not compromise on this, but the downside is that their profitability goes down and their survival ability is tested.[24]

When talking about the cost of implementing the regulations, it is vital to look at the magnitude of the cost. The best estimates can be gathered from financial institutions in developed countries and not from the MFIs (Cull et al., 2009). It is estimated that, in USA, the cost of complying with the regulations is around 13% of the total non-interest cost of a bank. It is logical to assume that the compliance cost for MFIs, which have a weaker infrastructure and operate on a relatively lower scale, would be much higher (Thornton, 1993; Elliehausen 1998). This higher cost can be attributed to the following reasons:

- Scale of economies: the banks or financial institutions in the developed world operate on a large scale with their consumer base and average deposits or loans being much

[21] CGAP - http://www.cgap.org/gm/document-1.9.43711/2009_SSA_Microfinance_Analysis_Benchmarking_Report.pdf.

[22] http://www.themix.org/sites/default/files/2009%20Africa%20Microfinance%20Analysis%20&%20Benchmarking%20Report.pdf.

[23] CGAP portfolio issue 3, 2005.

[24] Cull *et al.,* (2009)

larger than those of MFIs. When the costs are seen as a cost per account/loan, they are much smaller for the banks and is much larger for the MFIs.

- Start up costs: in the developed countries, the banks are well versed with the implementation costs and have their own teams for this. In contrast, the MFIs which are new to implementing regulations do not have such infrastructure and thus the start-up costs for the MFIs are significantly higher (CLR, 2003).
- Labour cost: most of the implementation costs include labour costs (managerial and legal expenses). Skilled labour is likely to be in short supply in developing and poor countries, and hence the costs for such people tends to be very high (Shroeder, 1985; Elliehausen and Kurtz, 1985; Elliehausen and Lowery, 1997).

It is also worth noting that, since implementation and supervision of prudential regulations need government/financial expert intervention, the costs would be higher than that of implementing a non-prudential regulation.

The second main factor relates to sources of funds: This factor influences the MFIs' performance especially in cases where the MFIs operate a lend-only model. The more capital available, the better the outreach is. In addition to the outreach, adequate capital influences the attitude of the MFIs and they become not selective in the segments of the markets served. Adequate capital also empowers the MFIs to allocate funds for the implementation of prudential regulations, which motivates them to provide additional services such as accepting voluntary deposits. Thus, adequacy of capital can lead to MFIs thriving and, in turn, results in better social protection.

The third factor relates to the general perception of the MFI: A regulated MFI is perceived as more secure and trustworthy than a non-regulated one. This is true for the both the consumers and the investing stakeholders. The consumers feel secure when they deposit their already scarce and hard-earned money with a MFI that is regulated by government regulations. This helps the MFI to extend more credit to people who desperately need it and thus provide the means for a better life. On the other hand, a regulated MFI, which regularly publishes its activities and financial performance, attracts more funders. A regulated MFI is more likely to get funders from the commercialised investors since they show their accountability through proper and systematic reporting, often carried out by capable, authorised personnel.

5. Social protection index (SPI)

The above criterions influence the outcome of MFI regulations in terms of influencing SP. But the challenge is how you measure SP, so that the correlation between the regulations and the changes in SP can be robustly established. This section deals with the concept of the/a Social Protection Index (SPI).[25] While calculating the SPI in this paper, we assume that the SPI is a reflection of the performance of MFIs on (i) coverage, and (ii) poverty-targeting. Furthermore, the coverage can be investigated in terms of the number of individuals/households/small businesses being served by the MFIs, and the amounts of deposits and loans as a percentage of the national GDP.

The data for this discussion have been collected from various sources such as World Bank Statistics, CGAP and MixMarket reports, etc. The data collection was a challenge because there is no single source available that will give information about the African countries on all the parameters. Hence, the data had to be collated from various sources. To ensure accuracy and correctness, the data from one source had to be verified with that of another source. Another challenge was that all sources are not up to date with the data, for example, if the population is updated as of 2006, the GDP was updated as of 2004. Hence, there is a small degree of gaps in the data periods. This marginal error in the entire dataset had to be incorporated due to lack of a single source, and a lack of uniformity in the data-collection methods of diverse bodies. These countries have different laws and regulations, as highlighted in Table 6.

[25] See SPI and Multi country Analysis, Bob Baluch and Joe Wood (2006)

Table 6: Comparative laws and regulations on MFIs

Country	Percentage of population with access to banking services	NGO microfinance provider formalisation or transformation issues	Ongoing microfinance policy development status	Ownership structure of banks (and financial institutions if available)
Kenya	Fewer than 10% of households and micro/small enterprises have access to financial services through mainstream financial institutions (as of 2006)	Capitalization, ownership structure, and taxation prevent NGOs from transforming into regulated financial institutions	On December 30, 2006, Kenya enacted the Microfinance Act 2006. On March 27, 2007, the Central Bank of Kenya (CBK) released draft prudential regulations for deposit-taking microfinance institutions. The CBK is soliciting feedback on these draft regulations and has scheduled a stakeholder conference for April 19, 2007. It is hoping to finalise and enact these regulations in the near future	BANKS & FINANCIAL INSTITUTIONS: 4 branches of foreign-owned institutions; 6 majority foreign-owned locally-incorporated institutions (with local participation); all other banks locally-owned (private and public) (as of June 2005)
Nigeria	35% of the entire population--but less than 2% of the rural population	Until December ’05, NGOs could only transform into Community Banks, whose regulatory/supervisory framework is not microfinance-friendly. However, new MF Policy has created MF Banks with an enabling legal framework.	The CBN unveiled its Microfinance Policy, Regulatory and Supervisory Framework in December 2005, and is establishing a National Microfinance Consultative Committee; all Community Banks must convert into Community MFBs or State MFBs by Dec. 2007.	Commercial banks and community banks - largely privately-owned. Development Finance Institutions-government-owned.

For this paper, a sample of ten countries is taken. These countries have the highest percentage of MFI borrowers amongst the total number of African region MFI borrowers. The sample represents a distributed set of countries in their geography, poverty levels, populations and GDPs. In contrast to many African countries that do not have accurate statistical records, the data in these countries were accurate. Also in line with the objective of the paper, i.e., to access the MFI regulations’ impact on social protection, these countries represent a wide group of people who are in poverty and who are in dire need of social protection. In the sample, the population under the poverty line (as defined below), ranges from 13 percent to 90 percent of total population with the majority of countries showing poverty percentage as more than 70 percent.[26] These top ten countries are reported in Table 4.

By definition, the MFIs strive to reach out to the poor population who has been termed as non-bankable by the formal financial sector. SPI-1 Coverage attempts to gauge the extent of which the MFIs in different countries have been successful in serving this target group. This index is calculated by first calculating the poor/non bankable population of a country. For the purpose of this paper, this is done by:

$$PuP = TP*X\% \qquad (1)$$

in which TP is the total population of the country and X denotes the factor of *PuP*. *CGAP* and World Bank have been referred to in order to ascertain this factor, taking into account the above-mentioned definition of *PuP*.

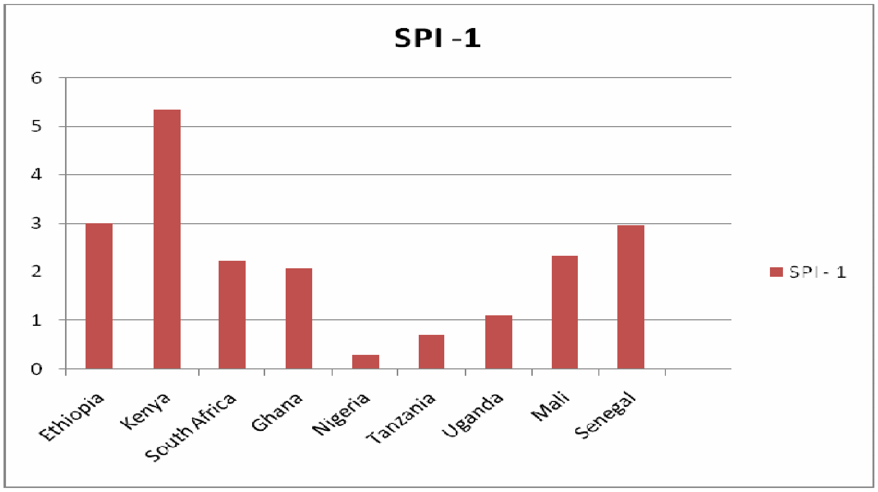
Once the *PuP* has been calculated, then the index aims to ascertain what portion of the *PuP* in a country is being served by MFIs. This is denoted by the SPI. The higher the SPI, the better the outreach of the MFIs is in the *PuP*. Consider the following table that lists the SPI and the subsequent figure that shows a comparison of SPI in the sample countries. The SPI is expressed in percentage terms to eliminate the variance in the *PuP* of different countries and to provide uniformity. The SPIs of specific countries are highlighted in Table 7.

Table 7: SPIs of selected African countries

Country	Population under poverty* (PuP)	SPI
Ethiopia	62956479	3.00
Kenya	21708575	5.36
South Africa	32620290	2.22
Ghana	17513195	2.08
Nigeria	136091029	0.29
Tanzania	38235531	0.71
Uganda	23932590	1.10
Mali	9796122	2.32
Senegal	7375553	2.96
Cameroon	NA	

[26] The total population of a country is taken from the World bank Statistics (as of 2008). The CGAP reports on country profiles give the percentage of population with less than $2 income per day. This criterion of income less than $2 per day is taken as an indication of poverty. This percentage is used to calculate the exact population of the country that can be termed as poor. The figures are stated as actual figures. Gross domestic Product, is taken from World Bank statistics reports on individual countries. It is uniformly mentioned in USD billion. *PuP*/borrowers ratio is calculated using the following formula: *PuP*/borrowers ratio = Number of borrowers*100/*PuP*. Thus this ratio denotes the percentage of borrowers against the population under poverty.

Figure 7: SPIs of selected African countries



As shown in Table 7 and Figure 7, the SPI ranges from a minimum of 0.27 in Nigeria to a maximum of 5.36 in Kenya. Let us consider these findings in the light of the current MFI regulations in these countries. In terms of access to banking or financial services in general, less than 2 percent of Nigerian rural population had access to such services. This can be largely attributed to the fact that, until recently, NGOs could only transform into community banks whose regulatory and supervisory framework is not very MF friendly. This was a major deterrent for NGOs that wished to engage into MF activities on a large scale.[27] This is further confirmed by the data on MixMarket website,[28] wherein of the MFIs which have reported, only two are NGOs. According to legislation in 2007, all community banks must community MFBs or State MFBs. This means additional pressure on the community banks to adhere to regulations that will add to their already strained budgets. These banks are mainly privately owned and do not have the resources to carry out the regulatory reforms and this has had an impact on the outreach.

In contrast to the outreach in Nigeria, Kenya has a better outreach of around 10 percent of households and micro/small businesses. This can be attributed to the fact that the recent microfinance policy of Kenya is more concentrated on the deposit-taking MFIs. According to the Microfinance Act 2006, all deposit-taking MFIs were subject to prudential regulations. This had no influence on the consequences for the lend-only MFIs. There have been no regulations imposed in the recent past on NGOs and lending-only community banks and MFIs. This kept the outreach safe and provided a secure atmosphere for these organisations to thrive. Also in contrast to Nigeria, Kenya has many foreign-owned banks operating in the microfinance sector due to its regulations. This has boosted the sector with more outreach. Foreign MFIs have the infrastructure to deal with the prudential regulations implemented by the above law. Hence, the adverse impact of the law imposing costly prudential regulations has been somewhat diluted.

The above arguments can be looked at from another perspective. The outreach of the MFI is also measured in terms of the disbursed loans as a percentage of GDP. Again, we find the same conclusions that Nigeria has the least GDP/loan portfolio ratio of 0.03 and Kenya has the highest GDP/loan portfolio ratio of 2.57 in the sample. The comparative data in Table 8 and Figure 8 show the GDP/loan portfolio ratio for the entire sample:

---

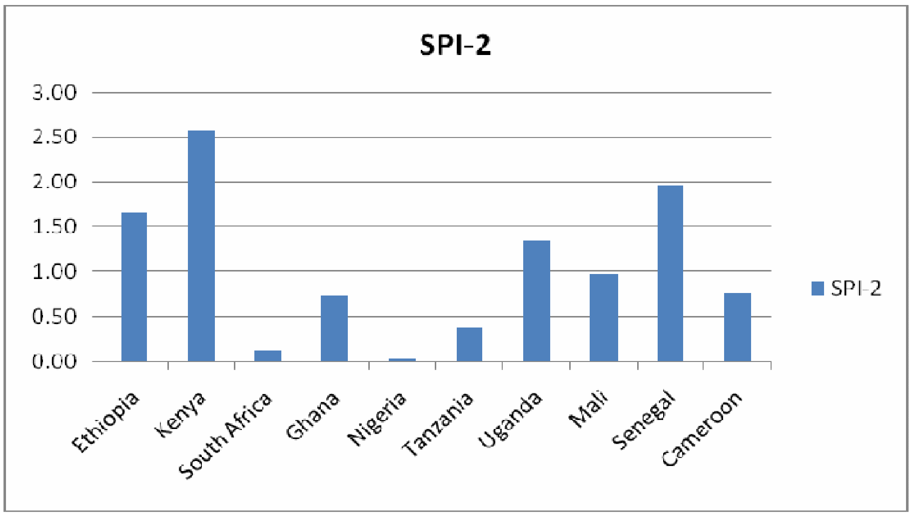
[27] CGAP country profiles - http://microfinanceregulationcenter.org/resource_centers/reg_sup/micro_reg/country/33/

[28] http://www.mixmarket.org/mfi/indicators?country[]=Nigeria&mix_region__c=All

Table 8: Coverage in terms of loan portfolio as a % of GDP

Country	GDP (USD billion)	Loan portfolio (USD billion)	GDP/loan portfolio ratio
Ethiopia	25.60	0.43	1.66
Kenya	30.40	0.78	2.57
South Africa	276.00	0.34	0.12
Ghana	16.70	0.12	0.74
Nigeria	207.00	0.07	0.03
Tanzania	20.50	0.08	0.38
Uganda	14.30	0.19	1.35
Mali	8.74	0.08	0.97
Senegal	13.30	0.26	1.97
Cameroon	23.40	0.18	0.76

Figure 8: Coverage in terms of loan portfolio as a % of GDP



The GDP/loan portfolio ratio is relatively straightforward and much easier to understand. The GDP/loan portfolio ratio is calculated as follows:

$$\textit{GDP/loan portfolio ratio} = \textit{loan portfolio}*100/\textit{GDP} \qquad (2)$$

GDP/loan portfolio ratio is expressed as a percentage and it ranges from 0.03 for Nigeria to 2.57 for Kenya in the sample countries. To further straighten the argument that the MFI regulations have an impact on SP, the following case study is considered.

Regulatory Practices – the Nigerian Case

Amongst many other issues, MFIs in Nigerian microfinance industry are facing financial difficulties and potential liquidation. The previous governor of the Central Bank of Nigeria (CBN), Professor Chukwuma Soludo awarded hundreds of licences without proper monitoring to create a large microfinance sector in the country. The regulations and guidelines in existence were not stringent enough to ensure that the services provided were purely for those to whom the licences had been granted. Some banks took up residence in expensive business districts and paid their senior managers high salaries and attractive benefits. Although some MFBs started competing with commercial banks, many others saw this as an opportunity to embezzle from the poor. A recent article in The Daily Sun even suggests that churches have "got in on the act" of creating microfinance as a means of stealing from the poor.[29]

Another example of poor regulations on MFI performance would be the case of "Mustard Seed Micro investment Bank".[30] Thousands of Nigerians deposited their savings with this bank. When they wanted to retrieve?/withdraw their money, they discovered that the bank had shut down. The problem with the Bank was that, in the absence of proper regulations and regular supervision, the management of the bank was diverting the funds from the deposits of its consumers into other businesses owned by them. The activities of microfinance institutions are supposed to be regulated by the Nigeria Deposit Insurance Corporation (NDIC), and the Central Bank of Nigeria (CBN) which issues licences to these banks. The CBN website listed 899 licenced microfinance banks, but several others which operate are not on the list.

Regulations help MFIs in Kenya thrive

The Ministry of Finance recognised the lack of a specific legal framework as well as a lack of the appropriate regulatory oversight to guide the specific operations of microfinance institutions in Kenya. In the light of this, a review exercise enabled the licensed deposit-taking MFIs to start a Deposit Protection Fund Board to protect their clients.[31] The acknowledgement of the impact of regulations on SP in Kenya is spelled out by the Central Bank of Kenya communications, followed by the enforcement of the Microfinance Act 2006. This act allows the Central Bank to Licence, regulate and supervise any deposit taking MFIs. The act is much elaborate in its scope and considers evaluating the MFIs in 6 different areas - governance and internal control systems, the management, credit technologies in place, information systems, the suitability of business, and the policies and adequacy of resources deployed by the institution. The act spells out explicit requirements regarding minimum capital requirement - a small example of how this act helps in ensuring the SP. The authorities are also actively supervising the adherence to such requirements, which is reflected in a statement by the Central Bank of Kenya – "an institution's minimum core capital levels will be monitored on a continuous basis by the Central Bank and may be reviewed from time to time."[32]

---

[29] Source: http://microfinanceafrica.net/editors-views/the-state-of-microfinance-in-nigeria/.

[30] Source: http://234next.com/csp/cms/sites/Next/Money/5506579-146/Poor_regulation_weakens_faith_in_micro-finance.csp.

[31] Source: http://microfinanceafrica.net/index.php?s=regulations+kenya.

[32] http://microcapitalmonitor.com/cblog/index.php?/archives/761-Central-Bank-Gets-a-Grip-on-Microfinance-in-Kenya-as-New-Regulations-are-Introduced.html.

Conclusions

The basic purpose of the MFIs is to provide financial services to the poor and non-bankable population. By providing such services, the MFIs aid in helping the poor to sustain day-to-day living, create income-generation opportunities, provide for education for their children and care for the sick and elderly. The higher the outreach of the MFIs, the more households and micro businesses benefit from it. Thus, efficient MFIs help the poor to sustain livelihoods and to improve the quality of life of not only individual households and businesses, but also that of society as whole. Thus, for the social protection to be effective, MFI performance and outreach has to improve, which depends on the nature of regulations in the sector. The regulations in the microfinance sector needs to be seen as a set of required "public actions to address vulnerability, risk and deprivation" (Conway, de Haan and Norton 2000), which clearly provides an argument for government to develop the regulations in a broader social protection framework.

However, global experience shows that any single model of regulation is not an answer to the need for regulation in the sector. The sector specific regulations in the sector highlight the distinctiveness of the microfinance sector. These regulations may facilitate microfinance institutions to mobilise savings and grow with more linkages with formal sector. However, it is important to incorporate country specificities to make the regulatory practices practical. For instance, the experience in Ghana shows that through the "tiered approach", microfinance institutions could grow into commercial markets to access finance. In reality, the nature of government regulations has varied impact on the MFI performance which depends on both institutional and country contexts. Usually, prudential regulations have a cost implication on the MFIs performance. At other times, an absence of regulations may hamper the growth of MFIs. The performance of MFIs depends largely on MFI regulations, which eventually affect social protection in several ways, mainly through their effectiveness and outreach. Governments need to consider the consequences of regulation in this sector beyond the formal approach, and to ensure closer engagement with microfinance institutions in developing the appropriate regulatory framework. In brief, the regulations play a vital role in the development of the microfinance sector and can determine the nature of the social protection provided by the sector.

References

Ahlin, C and Jiang, N (2008) Can micro-credit bring development?, Journal of Development Economics, Vol. 86, p.1-21.

Akinbajo, I. (2010), Poor regulation weakens faith in microfinance banks.

Armstrong, M, Cowan, S and Vickers, J. (1994), Regulatory reform: Economic analysis and British Experience, Cambridge, MA: MIT Press.

Arun, T and Annim, S K (2010), Economic Governance of MFIs: Inside the Black Box, Munich Personal RePEc Archive.

Arun, T and Hulme, D (2008), Microfinance – A Way Forward, Brooks World Poverty Research Institute Working Paper No.54, The University of Manchester.

Arun, T (2005), "Regulating for Development: the case of microfinance", The Quarterly Review of Economics and Finance, Vol. 45, pp.346-357.

Arun, T, Hulme, D, Matin, I and Rutherford, S (2005), Finance for the Poor: the way forward?, Chapter in Finance and Development – Surveys of Theory, Evidence and Policy edited by Christopher J. Green, Colin H. Kirkpatrick and Victor Murinde, Edward Elgar.

Aryeetey (2008) From Informal Finance to Formal Finance in Sub-Saharan Africa: Lessons from Linkage Efforts, Paper presented at the seminar on African Finance for the 21st Century, organized by the IMF Institute in collaboration with the Joint Africa Institute Tunis, Tunisia, March 4–5, 2008

Banerjee, A and Esther D (2007), 'The Economic Lives of the Poor'', The Journal of Economic Perspectives, Vol.21, No.1, pp.141-167.

Barrientos, A and Hulme, D (2008), Social Protection for the Poor and the Poorest – An Introduction in Social Protection for the poor and Poorest – Concepts, Policies and Politics edited by Barrientos, A and Hulme, D Palgrave Macmillan.

Basu, A., Blavy, R. and Yulek. M. (2004), Microfinance in Africa: Experience and Lessons from Selected African Countries, IMF Working Paper; African Department, September 2004. Baulch, B. and Wood, J. (2006), SPI and Multi country Analysis, in Social Protection Index for Committed Poverty Reduction, Asian Development Bank.

Bennet, L. (1998), Combining Social and Financial Intermediation to reach the poor: the necessity and dangers, in Strategic Issues in Microfinance, ed. By M. Kimenyi, R.Wieland and J.D. von Pischke, Ashgate.

CGAP (2008), Publication: Responsible Finance, July 15, 2008.

CGAP (2009) Who are clients of Microfinance?

CGAP (2009), Consumer Protection Policy Diagnostic Report Malaysia 2009,

CGAP (2010), What is Microfinance, http://www.cgap.org/p/site/c/template.rc/1.11.947/

Christen, R P, Lyman, T R, and Rosenberg, R. (2003), Guiding Principles on Regulation and Supervision of Microfinance, by CGAP/The World Bank Group.

Conway,T., A. de Hann and A. Norton (eds) (2000) Social Protection: New Directions of Donor Agencies. London: DfID.

Cull, R., Demirguc-Kunt, A. & Murdoh, J. (2009). Microfinance Meets the Market. Journal of Economic Perspectives. 23(1), 167-92.

CSFI (2009), Microfinance - Banana Skins, Confronting crisis and change, Published by Centre for the Study of Financial Innovation (CSFI).

Dercon, S (2002), "Income Risk, Coping Strategies, and Safety Nets", World Bank Research Observer, 17(2), pp. 141-166.

Ehrenpreis, D. (2006), What is poverty? Concepts and measures, United Nations Development Programme December 2006

Fehmeen (2010), Microfinance Africa, June 05, 2010: Economic and Legal Conditions Favourable for Mobile Banking – Part I, Microfinance Africa, by Fehmeen, Microfinance Hub, April 30, 2010

Forster, S., Lahaye, E. and McKee, K. (2009), Implementing the Client Protection Principles - A Technical Guide for Investors, September 2009

Gallardo, J. (2002), A framework for regulating microfinance institutions: The experience of Ghana and the Philippines, Policy Research Working Ppaer No, 2755, Washington, DC: World Bank.

Gonzalez, A. (2009), Microfinance at a glance. MixMarket:http://www.themix.org

Holzmann, R. and Jorgensen, S. (2000), Social Risk Management: A New Conceptual Framework for Social Protection and Beyond, Social Protection Unit, Human Development Network, The World Bank February 2000

Honohan P. (2007) Cross-Country Variation in Household Access to Financial Services Paper presented at a conference on "Access to Finance" in Washington D.C. on March 15 -16 2007

IMF (2007), Regional economic outlook: Sub-Saharan Africa -- [Washington, D.C.]: International Monetary Fund, 2007. p. cm. -- (World economic and financial surveys) Apr. 2007.

Irsen and others (2009), Access to Finance in Nigeria: Microfinance, Branchless Banking and SME Finance, By Jennifer Isern, Amaka Agbakoba, Mark Flaming, Jose Mantilla, Giulia Pellegrini, Michael Tarazi, CGAP Publication, January 2009

Imai, K. S. et al. (2010) Microfinance and Household Poverty Reduction: New Evidence from India, World Development, doi:10.1016/j.worlddev.2010.04.006

Isern, J. (2008), Behind the Headlines - Policy Change in Africa: An interview with Jennifer Isern, CGAP lead microfinance specialist, April 1, 2008

Khandker, S. (2008), 'Does Microfinance Really Benefit the Poor? Evidence from Bangladesh

Majone, G. (1996). Regulating Europe, London: Routledge.

McKee, K. (2008), Protecting Low-Income Consumers: An interview with CGAP microfinance expert Kate McKee, July 15, 2008

Meagher,P. (2002), Microfinance regulation in South Africa: A Comparative Perspective, Development Bulletin, 57, 48-52.

Morduch, J. and Rutherford, S. (2003), Microfinance: analytical issues for India, in Priya Basu, ed., India's Financial Sector: Issues, Challenges and Policy Options. Oxford University Press. April 4, 2003

Morduch, J (1999), The Microfinance Promise, Journal of Economic Literature, Vol. 37, No.4, pp.1569-1614.

Murinde, V. (2010), Bank regulation in Africa: from Basel I to Basel II and now at a cross-roads, AERC Seminar, April 2010

Orodje, G. (2010), The State of Microfinance in Nigeria, Microfinance Africa, By Graham Orodje, June 05, 2010

Peachey, S. and Roe,A. (2004) Access to Finance: A Study for the World Savings Bank Institute Oxford: Oxford Policy Management.

Rutherford, S. (1999), The Poor and their Money, Oxford University Press.

Steel, W. F and Andah, D.O (2003) Rural and microfinance regulation in Ghana: Implications for development and performance of the industry, WB Africa Regional Working paper Series No. 49, Washington, DC.

United Nations (2000) Enhancing social protection and reducing vulnerability in a globalised World, Report of the Secretary General to the Thirty-ninth Session E/CN.5/2001/2,Washington, DC: United Nations Economic and Social Council.

UNCDF (2008) Building Inclusive Financial Sectors for Development, United Nations, New York.

Warmington, M. (2007), Central Bank Gets a Grip on Microfinance in Kenya as New Regulations are Introduced, April 16. 2007

Yunus, M (2003), Banker to the Poor: Micro lending and the battle against World Poverty, Public Affairs.