

EFFECTS OF MDI LAW & REGULATION

Study Commissioned by



Conducted by

August 2007



- Mainstreaming of microfinance has been a topical issue
- Upsides of commercialization, which at the top end had institutional transformation, largely won the debate in the recent past

STUDY COMMISSIONED TO EXAMINE:

- **Impact of the MDI regulation**
- **Costs & benefits of transformation/
regulation**
- **MDI model as a vehicle for MF
service delivery**
- **+s and -s of the MDI Act 2003**
- **Possible alternative approaches.**

SOME QUESTIONS

- **Does regulation strengthen the institutions?**
- **Does it always result into increased outreach to the poor or the reverse?**

SOME QUESTIONS (Contd..)

- Is it necessary to promulgate a separate law for MFIs to be licensed and regulated?**
- What happens when regulated MFIs feel they are overregulated in comparison to other formal financial institutions?**

SOME QUESTIONS (Contd..)

- Is regulation (especially prudential) what MFIs need to enhance their outreach?**
- What happens when new players bring in their venture/ equity capital, transformed MFIs get more of the money from the market for portfolio growth and the regulator has stringent performance requirements for the institutions?**

FINDINGS: Expectations

- **MDIs – Largely met**
- **BoU – Largely met**
- **Government – Not met**
- **AMFIU - Partially met**
- **Tier 4 MFIs -**

FINDINGS: MDIs

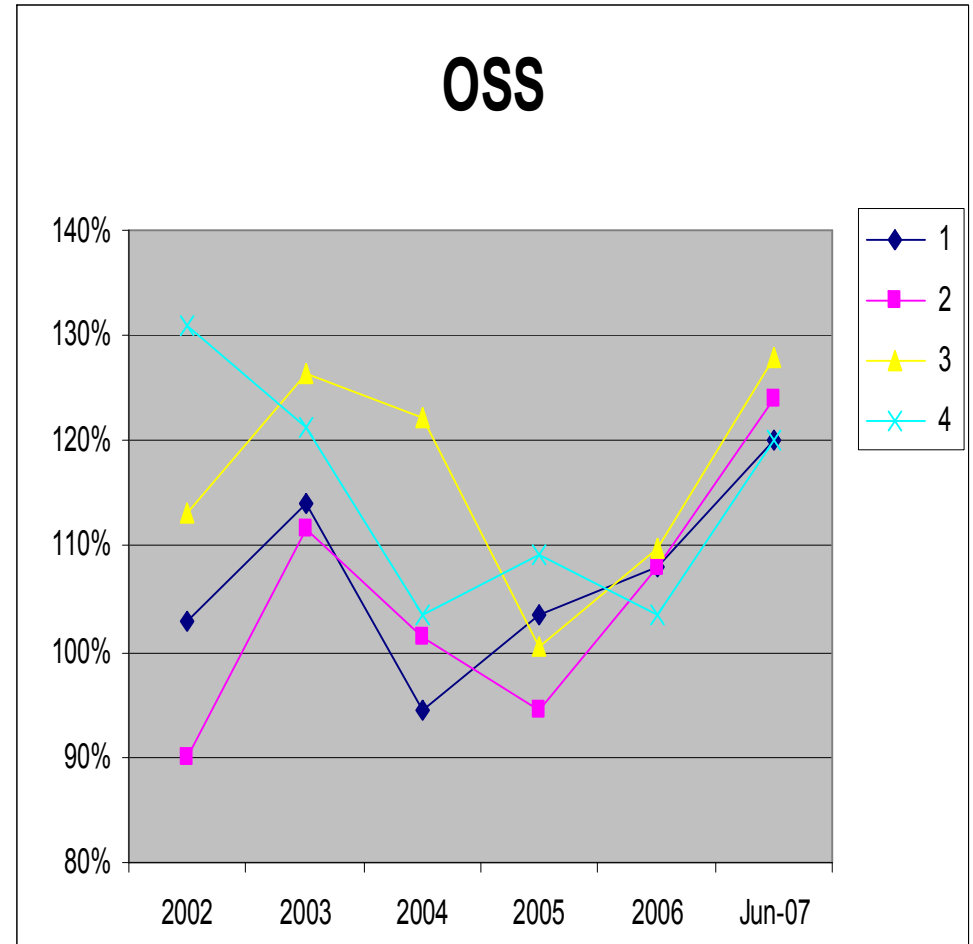
- **Clear ownership – Shareholding Cos**
- **Control more diversified**
- **Significant external shareholding**
- **More board skills**
- **Keener governance/ oversight stipulations**

FINDINGS: MDIs

- Improved management quality
- Improved controls & reporting
- More products
- Institutional image & signage

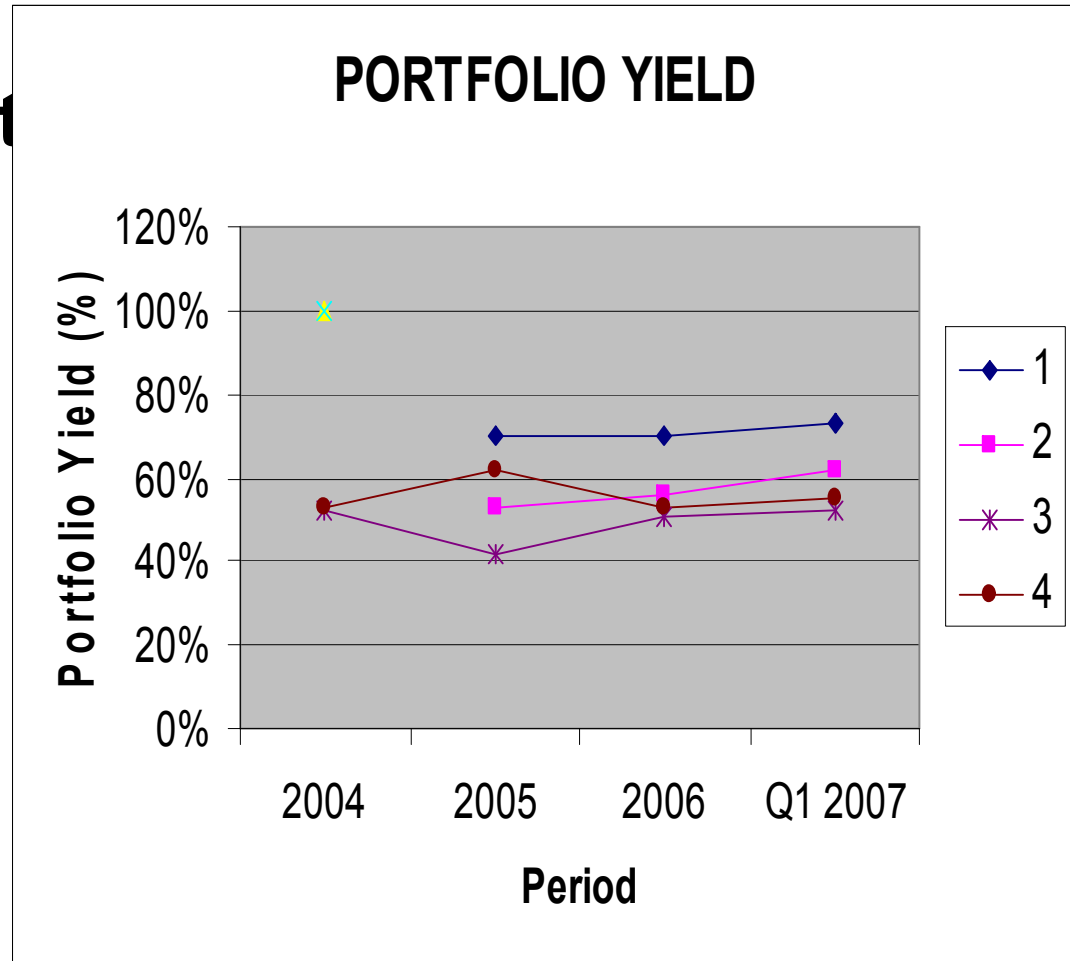
FINDINGS: MDIs

- Profitability suffered a temporary dip, and is recovering.



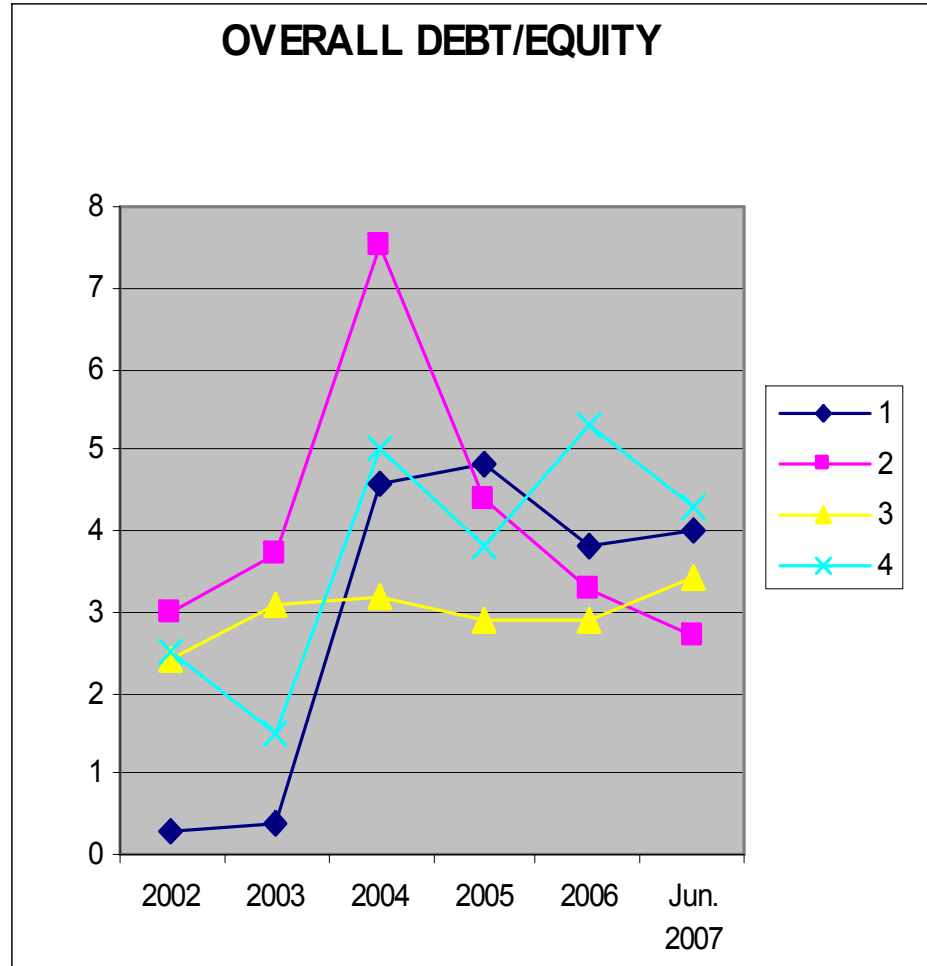
FINDINGS: MDIs

- Portfolio yield increased slightly overall



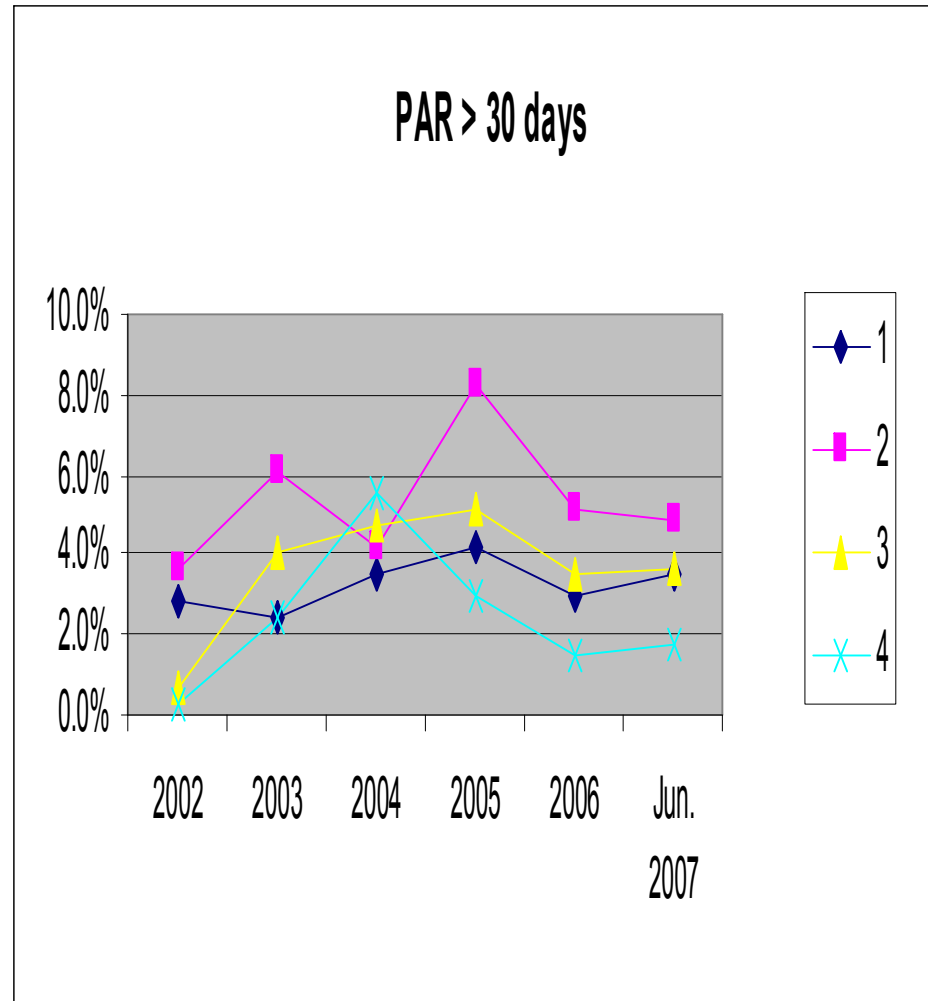
FINDINGS: MDIs

- Overall D/E Ratio went up



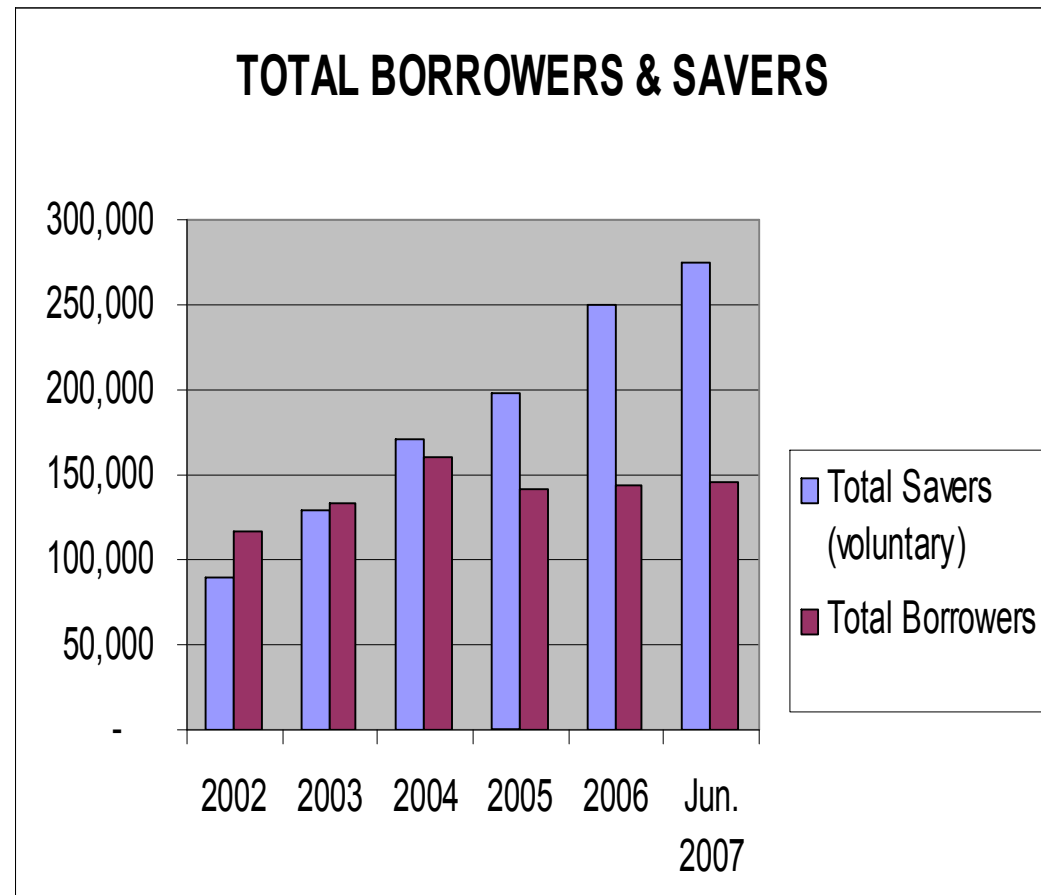
FINDINGS: MDIs

- **Portfolio quality temporarily worsened, and this is now reversed**



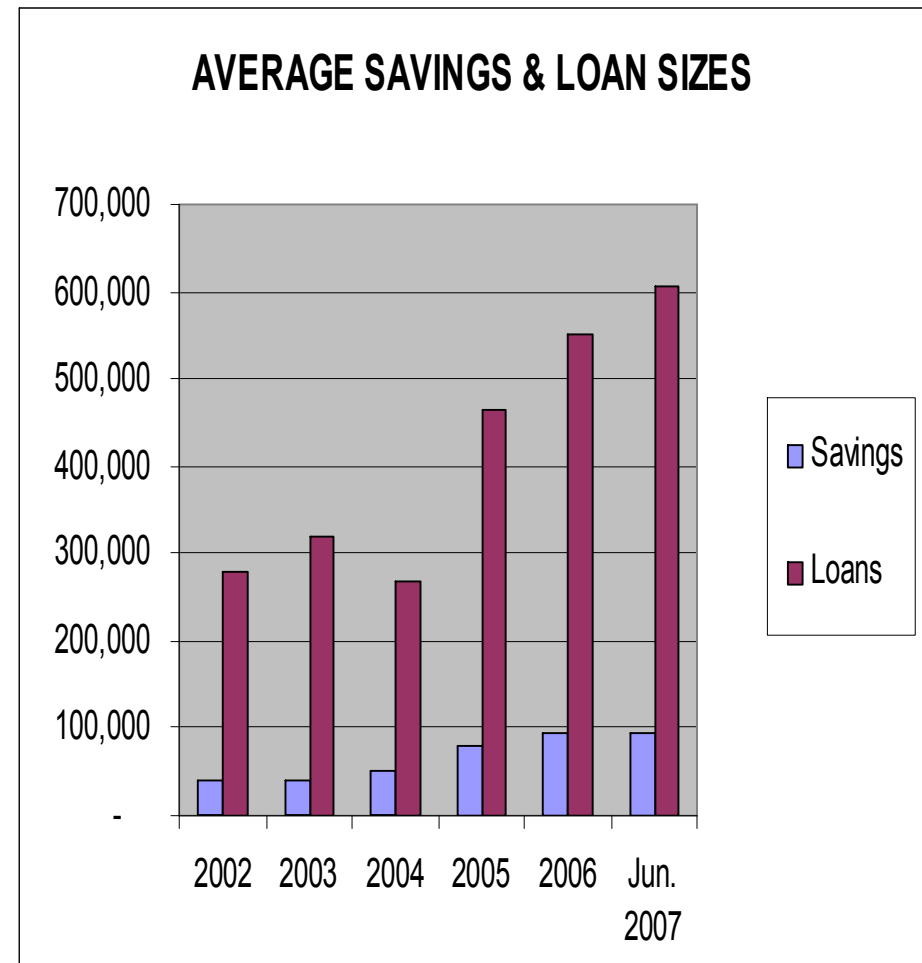
FINDINGS: MDIs

- **Numbers of savers grew fast while borrowers reduced**



FINDINGS: Outreach & Client focus

- **Average loan size grew rapidly while savings only modestly**



FINDINGS: Outreach & Client focus

- **Total number of Borrowers MDIs 2.3%;
Tier 4 Control Group 7.4%**
- **Loan Portfolio Outstanding
MDIs 22.8% Tier 4 Control Group 22.8%**
- **Average Loan Size MDIs 20.0%; Tier 4
Control Group 14.3%**

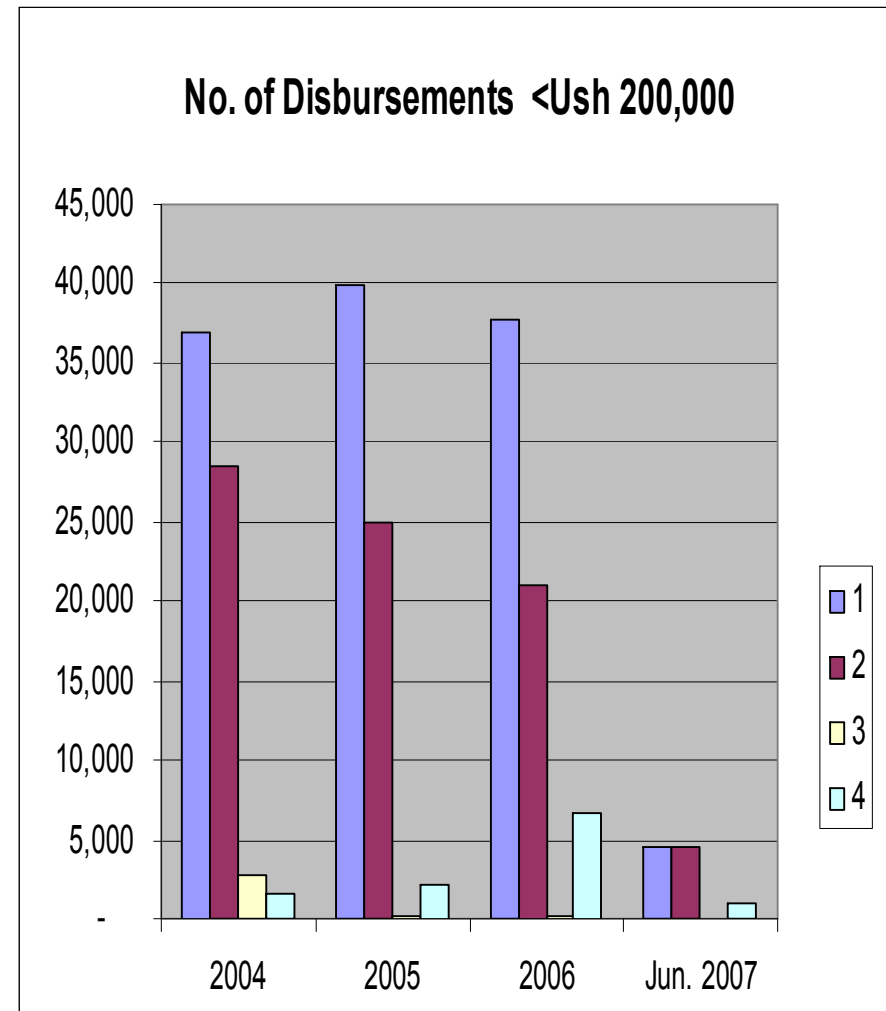
FINDINGS: Outreach & Client focus

- Of all performance projections, only average loan balance was exceeded by actual performance

	Savings	No. Of Savers		Gross Loan Portfolio	No. Of Active Loan Clients	Average Loan Balance
2006	-31%	-14%		-24%	-30%	13%

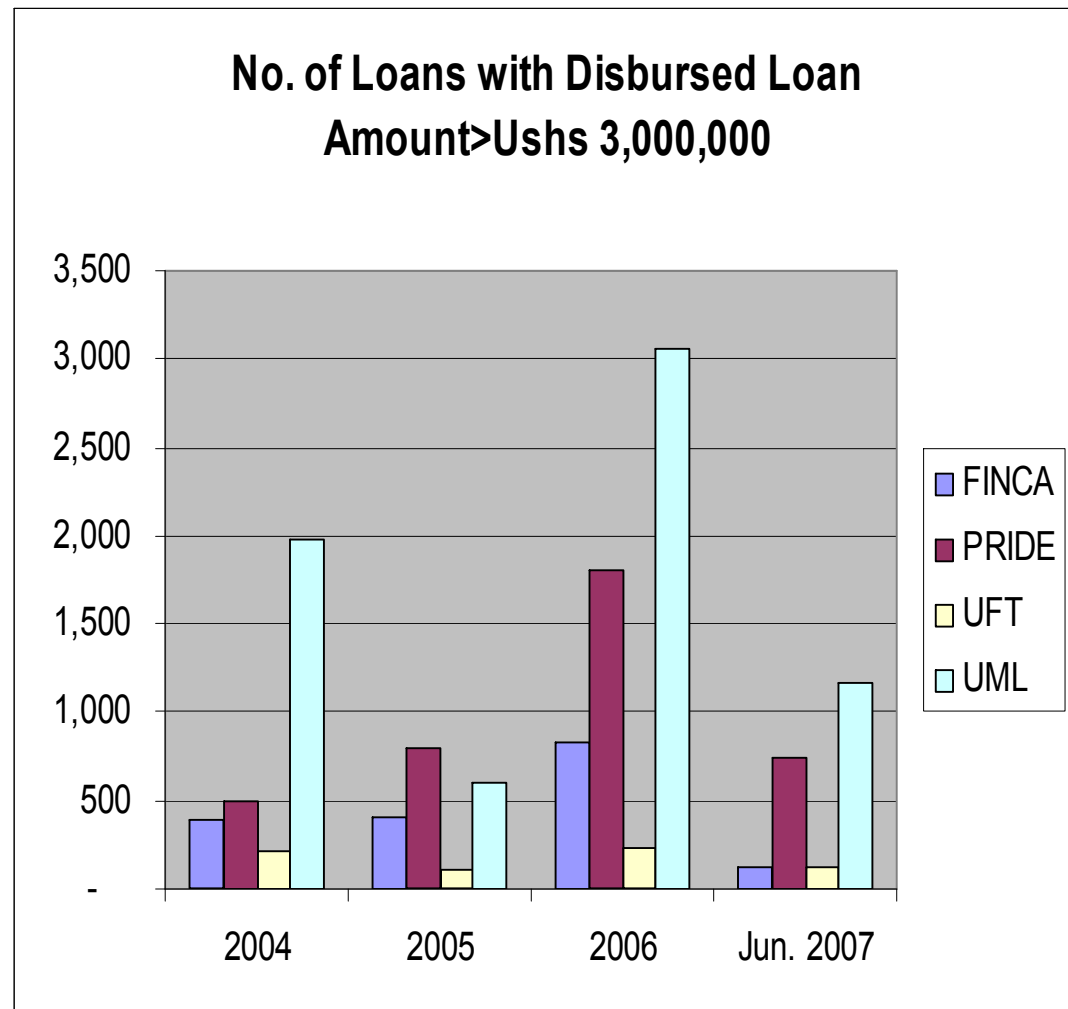
FINDINGS: Outreach & Client focus

- **Smallest loan disbursements have reduced notably across the board**



FINDINGS: Outreach & Client focus

- **More loans of Sh=> 3m being disbursed every year**



FINDINGS: Outreach & Client focus

- *Percentage Of Group Loans*
- **100% to 92%**
- **98% to 83%**
- **81% to 25%**
- **74% to 66%**

COSTS

- **Donors have spent between US\$ 470,000 and US\$ 910,000**
- **Including the costs borne by the MDIs themselves, on average US\$ 1.3 and adding costs by other stakeholders, each MDI's transformation could have cost an estimated US\$ 1.8 to 2.0 million**

COSTS JUSTIFIABLE?

- **The yardstick/ benchmark..?**
- **Long term benefits measured short term?**
- **Core principle: Tier 4 Working Group**
- **Pay-offs for MDIs – status, deposits, commercial funding, governance & systems**
- **Increasing numbers of savers**
- **BUT Tier 3 status is more more tasteful**
- **All existing advantages and perhaps more could have been achieved through amendment of the FIA 2004**

CONCLUSION

- **Some advantages**
- **Some drawbacks**
- **Some lessons learnt**