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Asia-Pacific  
Economic Cooperation

# Increasing the Diversity of Microfinance Service Provision

## Introductory Remarks - Terminology

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# Terminology: Microfinance Providers

- NGOs (various forms)
- Commercial finance (and leasing) companies
- Financial cooperatives
- Commercial banks
- A variety of government-run financial service entities: state-owned commercial banks, agricultural banks, other development banks, postal savings banks
- Informal providers
- New players on the scene:
  - Nonbank retail agents supporting 'branchless banking' models
  - Mobile phone operators and nonbank prepaid card issuers

# What is a regulation?

**'Regulations'** –  
binding rules  
adopted by an  
*executive body* (e.g.  
ministry of finance  
or central bank)



**'Laws'** –  
binding rules  
adopted by a  
*legislative body*  
(e.g.  
parliament)



**'Regulation'** (no  
's') – all binding  
rules, both laws  
and regulations

# Prudential Regulation

- Prudential regulation (and supervision):  
“Prudential” regulation and supervision protects financial ***solvency*** of regulated institutions to ensure the safety of people’s deposits and of the the financial system.
- Prudential regulation/supervision is ***EXPENSIVE***  
(so use sparingly-don’t rush into it)
  - *It is the clients who pay the cost*

# Example of Non-Prudential Regulations

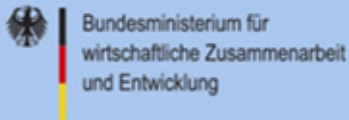
- Protecting against abusive lending and collection practices – so called ‘predatory lending’
- ‘Truth in lending’ (or transparent loan cost disclosure)
- Interest rate limitations
- Protecting against fraud and abusive investment schemes, such as pyramid schemes
- Protecting against money laundering and terrorist financing

# Prudential or Non-prudential regulation?

	Prudential Regulation	Non-Prudential Regulations (e.g. AMLCFT; transparency in lending practices, financial disclosure, and interest rates)	No regulation and no supervision
Large and Medium Deposit Taking Institutions including Large Cooperatives	X	X	
Credit only institutions		X	
Small community based savings and credit organizations			X



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