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Full Length Research Paper

The Impact of Regulation Policy on Product and Service Delivery of Micro-Financial Institutions: A Case of Zimbabwe

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There has been very little research on the regulation and supervision of micro finances and their impact on product and service delivery. To date, much of the research has been limited to case studies of successful micro finances in Asia, Africa and Latin America. The studies have tended to focus on micro economic impacts and relationships between micro finances and their recipient credit clients. The study examines the overall impact of regulation and supervision on product and service delivery of microfinance sector. The analysis was done at two levels, that is, formal and informal MFIs. Descriptive research design was used on a sample size of 100 MFIs (60 formal and 40 informal MFIs). Primary and secondary data collection techniques were used to obtain the data. The study found that non or lax regulation of the microfinance sector in Zimbabwe has a detrimental effect on product and service delivery development in the sector. The evidence also suggests that the costs of compliance are considerable and would outweigh any potential benefits that would be gained. The research findings imply that the stage of development of the microfinance sector needs to be taken into account in establishing the regulatory framework. For regulations to be beneficial, they have to take industry structure into account, especially in relation to regulatory capital requirements, ownership and governance structure, size and lending methodologies.

Keyword: Regulation, Micro Finance Institutions, Central Bank

INTRODUCTION

The study sought to investigate the impact of the regulation policy on product and service delivery of microfinance institutions in Zimbabwe. Microfinance institutions can be classified as formal, informal and semi formal. Micro financing is a local process based on local institutions, increasing from the private sector, that act as intermediaries collecting resources (savings and funds) and reallocating them as loans. The main goal of microfinance institutions is to provide flexible and appropriate financial products and services to the poor not usually accessible from the commercial banks (Otero and Rhyne, 1994).

In many developing countries, the formal banking

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sector serves less than 20% of the population (Berenbach and Churchill, 1997; Robinson, 2001). The rest of the population, typically low income households, historically had no access to formal financial services. Innovative financial institutions (FIs) known as micro financial institutions have emerged to cater for this market. With the reaffirmation of the primary goal of reducing poverty in the development policy agenda, microfinancial institutions have become a crucial component in reducing poverty and promoting micro and small enterprises development (Hulme, 1999) .

With the increased interest in the microfinance as a poverty alleviation tool, the regulation of microfinance has been added to the agenda for a number of reasons. Regulation and ensuring the provision of financial services to the economically active poor is seen as a way of facilitating sustainable development institutions on a massive scale, promoting microfinance and improving performance, protecting depositors where micro finances accept deposits and ensuring financial system stability where micro finances have grown to such an extent that the failure of one may disrupt the financial sector.

The regulatory environment is crucial if microfinance institutions are to develop and innovate. On the other hand if microfinance institutions are to flourish they should be able to operate relatively freely. In recent years microfinance institutions have become one of the most important instruments in economic policy. The idea of microfinance arose in the mid 70s when Mohammad Yunus started a pilot scheme lending small loans to villagers in Bangladesh (Glenn, 2006). Encouraged by the high repayment rates the scheme was expanded on a larger scale. The beginning of microfinance institutions in most countries including Zimbabwe can be traced back to this era.

Prior to the microfinance revolution poor people's opportunities to take up loans was severely limited. First with few substantial possessions poor households could not offer collaterals to secure their loans. Second, the potential addresses of small loans in less developed countries often live in remote rural areas beyond reach of the traditional banking system. Third, although loans needed for individual projects are small their myriad nature makes monitoring and enforcement costs prohibitively high. Providing microfinance is believed to be a way of generating self employment opportunities for the marginalized (Robinson, 2001). Microfinances have become the most favoured interventionist strategy amongst international development agencies (Wright, 1999). This called for the regulatory policy of microfinances by the central banks in most countries.

Prior Economic Structural Adjustment (ESAP), that is, the period from 1980-1990, most microfinancial institutions in Zimbabwe operated relatively freely. Though most microfinance institutions were informal there was a marked growth due to limited regulatory policy in terms of licensing and supervision. However, after ESAP few well known registered microfinance institutions were regulated, but since many were informal there was an increase in their growth.

From 1990-2000 a lot of microfinance institutions were established in Zimbabwe due to limited regulation framework. However, from 2000-2005 the microfinance sector in Zimbabwe has been sailing in murky waters because of economic hardships (Microfinance bulletin, 2006). When the central bank made the decision to takeover regulation of microfinance institutions, the financial sector was labouring under extreme adverse drips, which were threatening the whole economy. In Zimbabwe the Reserve Bank of Zimbabwe (RBZ) implemented the regulation policy on microfinance institutions.

When the RBZ came to scene, definitive measures intended to arrest negative trends and redirect the industry in terms of its modus operandi; its values and visions had to be taken. Individuals and microfinance at large may not have agreed with all aspects of steps taken, that nearly 140 operators exited on their own volition vindicates due to the approach and requirements laid down by the central bank (Microfinance bulletin, 2006).

The operation 'Restore Order' crafted by the central bank created more challenges for the microfinance sector. This resulted in a negative growth of microfinances in Zimbabwe. On the move of restrategizing they implemented a deregulation policy, which improved on the growth and development of MFIs. An effort to promote recapitalization of the national fund for MFIs was made. This would aid MFIs in securing working capital hence improving their growth through innovative product and service delivery.

As the Zimbabwean economy continued to rediscover itself, the Central Bank engaged in a different gear. After initially subjecting all microfinance players to regulation and supervision, it limited the supervision to only microfinance that has potential to take deposits. RBZ delegated authority through its division Apex Unit to supervise the other half, leaving it concentrating on the few key institutions whose activities have the capacity to impact and influence behavior in the economy.

Due to these and other challenges, the research sought to carry out an investigation on the impact of regulation policy on product and service delivery of microfinance institutions in Zimbabwe. Previous studies tended to focus on micro economic impacts and relationships between microfinances and their recipient credit clients (Hulmet *et al*, 1996). There has been very little research into the regulation and supervision of microfinances and its impact of regulation on the development of the sector in Zimbabwe.

The study seeks to answer the following questions

1. What is the impact of regulation policy on product and service delivery of microfinance institutions in Zimbabwe?
2. Should all microfinance institutions be subject to regulation in developing countries?
3. Does the regulation policy result in price flexibility of MFIs?

LITERATURE REVIEW

Development of Micro Financial Institutions

Although there has been much discussion and debate about microfinance in the last few years, microfinances are not new. Poor people have always had their own traditional financial systems, such as moneylenders, and the concept of microfinance as a development intervention is not new (Harper *et al*, 1998). Today the term 'microfinance' conjures up images of donor funded NGOs, providing small loans to low income households and to finance economic activities. What has generally come to be regarded as microfinance started in the 1970s and was focused on the provision of credit to the poor in order to reduce poverty and instigate social change. The process was driven by NGOs and came to be known as the 'microcredit revolution'. It is often associated with Muhammad Yunus and the founding of Bangladesh's Grameen Bank in 1970. Powered by donor support and international publicity, Grameen Bank became the new model of microcredit, its founder the prophet of the microcredit movement (Seibel, 2005).

What is regulation?

Regulation is defined by Mitnick (1980) as the intentional restriction of choice by a party not directly involved in or performing the regulatory activity. This definition implies that market participants are not party to the rule making process which may not necessarily be the case, especially in instances of self regulation. A more inclusive definition is given by Chaves and Gonzalez (1994) as a set of enforceable rules that restrict or direct the action of market participants and as a result alter the outcome of those actions. Llewellyn (1986) provides a more elaborate definition of regulation as a body of specific rules or agreed behaviors, either imposed by government or other external agency or self –imposed by implicit or explicit agreement within the industry that limits the activities and business operations of financial institutions. Thus regulation may be performed by the market itself (self regulation) without government intervention or with the participation of external forces. The main theme running through all definitions is that the behavior and decisions of the market participants is influenced in some manner by these rules. The debate whether microfinance should be regulated tends to be clouded because those involved seldom explicitly state what type of regulation is being referred to.

The Nature of Microfinance Institutions

Microfinance institutions are formal, informal and semi formal, financial institutions established to provide finance to the poor because they lack collaterals (Rhyne, 1994). According to Roth (2002) microfinance therefore encompasses microcredit, microsavings and microinsurance. Micro financers include NGOs, member based organizations such as village banks, savings and credit cooperatives (SACCOs), special government banks and private commercial banks.

Product and service delivery

Product and service delivery of MFIs include savings, credit, payment facilities, remittances and insurance (Lerdgerwood *et al*, 1999). With the passage of time, there has been increasing emphasis on the importance of offering a wide range of quality and flexible financial services in response to wide variety of needs of the poor (Wright, 1999). The push to 'microfinance' came with the recognition that households can benefit from access to a broader range of financial services, especially savings. The 'microcredit revolution' had thus been transformed into the 'microfinance revolution' (Seibel, 2005).

Micro Financing and regulation

Microfinance is a local process based on local institutions increasingly from the private sector that act as intermediaries collecting resources (savings and funds) and reallocating the same to community of origin (Rhyne,1994). They are mainly from the non-bank sector and cover the financial market system segment existing between the formal (commercial) bank system and the informal credit sector. Microfinances are highly diversified, including co-operatives, savings to loans institution, village banks, credit associations, credit unions and non-governmental organizations.

It is generally accepted that financial institutions should be subject to regulation. This should be to protect depositors, particularly small depositors from loss of their savings if the financial system becomes insolvent (Christen and Rosenberg, 2000). Regulation is also important to ensure that financial system, as a whole does not become unstable through loss of confidence as a result of insolvency. Unless they are extremely large, micofinances are not likely to threaten the stability of the financial systems in which they operate. This suggests that MFIs should generally not be subject to prudential regulation unless they accept deposits to protect depositors from loss of their savings in case of insolvency.

Earlier Policy research working paper Henne *et al* (2000) identifies thresholds in financial intermediation activities that trigger a requirement for microfinances to satisfy external or mandatory guidelines. This suggested that prudential regulation of microfinances in Zimbabwe should also be triggered by certain thresholds in terms of number of members, on the basis that it would be unrealistic for any agency to supervise all the microfinances operating in Zimbabwe at that time. On the other hand, the framework also appeared to cover credit-only microfinances that met the membership threshold.

Some commentators such as Christen *et al* (2000) have suggested the need for an explicit "lower boundary" based on assets, number of members or other appropriate variables, below such institutions would be free of regulation. The study noted that appropriate thresholds are country specific and difficult to specify in each case. This suggested that it did not appeal practical to regulate the full range of microfinances because some of them would not meet the thresholds declared. In Zimbabwe some registered microfinances failed to meet the minimum capital requirements as set by the RBZ and were forced to exit the industry impacting on product and service provision of microfinances (Microfinance Bulletin, 2011).

However, Christian and Ronsberg (2000) suggested the need for strengthening the capacity of microfinances as a higher priority than establishing a special law for microfinances. Over a long term this appeared to require enactment of special laws for regulating microfinances. Failure to have proper regulation procedures resulted in an increased exposure of the financial system in Zimbabwe between 2000-2004 creating challenges to the microfinance sector. This resulted in a negative growth of MFIs due to poor product and service delivery.

Carpenter (1997) argued that lack of regulation results in the growth and development of MFI's. In the research Carpenter found out that some central banks have insufficient resources to undertake their core functions including maintenance of monetary stability and prudential regulation, let alone to regulate large numbers of microfinances. The study argued that given the limited administrative resources and government regulatory failures in most countries, the nominal imposition of regulation would not necessarily result in the better performance by microfinances. Indeed, in some countries the unregulated MFI sector appears to perform better than the regulated sector. In Zimbabwe the unregulated informal microfinances grow faster and perform much better than some of the formal microfinances. There appears to be no institution with an unchallenged claim to undertake the role of regulation. Given the central bank's difficulties in the supervision of the financial sectors, any role assigned to it should be undertaken with caution.

Most countries have processes for registration of microfinance institutions that do not involve central banks. However there are cases were central banks have become involved in registration and licensing of certain categories of microfinance institutions. The most prominent example is Nepal where the central bank is the main regulatory body for licensed MFIs. In Zimbabwe the central bank, RBZ, is also the main regulatory body for licensed MFIs, but the greatest challenge is that ownership structure is somewhat not clearly defined. For example who owns non-governmental organizations or cooperatives? In cases where ownership is clear for example private companies delivering microfinance services, the challenge becomes who participate on the board?

Some countries impose ceilings on interest rates microfinances should charge. In some cases there are prescribed in anti-usury laws or result from policies of various governments' agencies rather than imposed by the central bank. However there are a number of cases were the central bank does in fact control the interest rates charged by certain categories of microfinance institutions. For instance under the Financial Intermediary Society in Nepal, it was decided that microfinances will decide their on-lending interest rates and then inform the central bank. The central bank will then ask the microfinance to revise their interest rates. In Zimbabwe interest rate ceilings and floors for formal microfinance institutions are controlled by the Reserve bank but most informal microfinances charge their own rates.

The Regulatory Framework

Two opposing strands of regulation theory set the boundaries for this debate, the 'public interest' view and the 'private interest' view.

The public interest view

The public interest approach is one that has dominated thinking on regulation for most of the twentieth century and is still taken for granted in discussions of regulation (Barth *et al*, 2006). This approach, sometimes referred to as the 'helping hand' view, centres on the idea that those seeking to introduce or develop regulation do so in pursuit of public interest related objectives rather than group, sector, or individual self interests.

It assumes that there are significant market failures and government has the incentives and capacity to correct these market failures. In other words, public interest assumes that the state, acting in the public interest, establishes a legal framework to realize a specific set of regulatory objectives (Llewellyn, 1986). The purpose of regulation, therefore, is to offset market failures which would work to the disadvantage of consumers if market mechanisms were allowed to operate unchecked. The public interest is one that achieves the greatest overall good (Francis, 1993).

Impact of Public Interest View form of Regulation

Early empirical studies of the effects of regulation generally concluded that regulation failed to achieve the results that a public interest theory of regulation would have implied, namely to correct market imperfections so as to simulate the welfare maximizing conditions of perfect competition and customer protection (Baldwin and Cave, 1999). Capture theorists argue that public interest theory understates the degree to which economic and political power influences regulation.

Regulatory policies and institutions are often influenced by those who are regulated, politicians, or consumers, so that regulation serves the interests of these groups rather than those of the general public (Majone, 1996; Posner, 1974). Thus many instances of regulation are not necessarily a result of a desire to correct market failures. Secondly, it is questionable as to whether regulators are in fact 'disinterested'. It has been argued that regulators may be corrupted by opportunities for personal gain, so that regulation is biased by the pursuit of personal interests (Mitnick, 1980; Baldwin and Cave, 1999).

A reformulation of the public interest view attempts to correct some of the weaknesses identified by arguing that, although regulations were initially intended to serve public interests, the regulatory process was subsequently mismanaged with the result that the original objective was not always achieved (Posner, 1974). Regulators simply lacked an independent basis for judgments and gradually become the allies of the industry (Francis, 1993).

Private interest view

The private interest view considers regulation as a product, with suppliers and demanders interacting to determine the exact shape of the market. Governments are usually the main suppliers, and although consumers may demand regulation, the industry itself is an important influence on the demand side, both for and against, certain types of regulation (Stigler, 1971; Posner, 1974; Peltzman, 1986). The central task of this theory was to explain who will benefit or bear the costs of economic regulation, what form regulation will take, and the effects of regulation on product and service delivery (Stigler, 1971).

The underlying theme in Posner's theory is that since the state's coercive power can be used to benefit particular individuals or groups through economic regulation, the expression of that power can be viewed as a product whose allocation is governed by demand and supply. Therefore product and service delivery was governed by demand and supply (Posner, 1974).

Powerful regulators, according to this view, will not focus on overcoming market failures and boosting social welfare; rather, they will focus on promoting their private interests. And even if supervisors attempt to behave in the public interest, they may be pressured by politicians motivated more by private concerns. Political capture is thus a form of regulatory capture under which regulation is designed and promoted to meet the needs of the political elite and to preserve its power (Cook *et al*, 2003).

Accordingly, the private interest view supports greater reliance on market discipline, information disclosure, a light hand by the regulatory authorities, and significant oversight of the regulatory process itself.

Regulatory failure

Critics argue that market failure is not a sufficient justification for government intervention since 'regulatory failure' may have more serious consequences than market failure (Majone, 1996).Regulation failure impact on product and service delivery due to mismanagement and inefficient allocation of resources. Because the state is powerful and probably omnipotent, it becomes a source of patronage and economic advantage. Regulation is either at the outset set to favour special interest groups (the private interest view), or even if its origins lie in true concern with market failure (the public interest view), it is over time 'captured' by special interests intent in promoting their own economic agenda. The result is then a degree of state failure that could even exceed the market failure that regulation is supposed to correct (Cook *et al*, 2003).

Limitations of regulation

There needs to be a public policy recognition of the limitations of regulation; that it has only a limited role; that even in this restricted dimension it can fail; that not all risks are covered; and that the optimum level of regulation and supervision falls short of eliminating all possibility of consumers making wrong choices in financial contracts (Llewellyn, 1999). External regulation and supervision by official agencies is not an alternative to robust and effective internal supervision processes and responsibilities. The management of MFIs is not absolved of their responsibilities simply because there is external supervision. Consumers need to be aware of the limitations of regulation; otherwise the demands placed on regulation will be excessive and result in costs far exceeding any benefits for such demand to be met. Thus, regulation may encourage moral hazard on both the part of consumers, who are less likely to exercise due care and diligence, and owners and managers, who are more likely to engage in risky behavior.

Critics argue that regulation may overestimate either the severity or possibility of risks. By seeking to render products or services risk free, regulations may generate such costs that outweigh any potential benefits (Francis, 1993). This preoccupation with minimising risk must be weighed in light of the practicability of producing a risk free environment. Regulation is costly and burdensome for suppliers; it can lead to declining competitiveness (Francis, 1993). Regulation can also be welfare reducing if, for instance, it “raises unnecessary entry barriers, restricts competition in other ways, controls prices, stifles innovation, restricts diversification by financial firms and impedes market disciplines on financial firms” (Llewellyn, 1999).

Lastly, the steady increase of regulatory objectives leads to ‘over-regulation’ (Francis, 1993). As regulation continues, other values, such as income distribution, enter framework. This leads to regulatory complexity which firms may find difficult to meet. Also, there may be a paradox to over-regulation: regulators are given so many responsibilities that they are unable to regulate effectively.

Risks associated with Regulating MFIs

In developing an appropriate framework for the regulation and supervision of microfinance, it is important to note that risk features of commercial banks are not directly applicable to microfinance. Consequently, many of the regulatory and supervisory features adopted to address the risks of standard commercial banking do not apply to MFIs. Thus, an appropriate regulatory framework must take into account the risk profiles of MFIs which include management risk, portfolio risk and new entry risk.

Management risk arises because of the delivery methods used to service this market. This risk tends to be high due to the decentralized operating methods, high volumes, low returns per loan, rapid portfolio turnover and requirement for efficient service delivery. Management must be familiar with microfinance methodologies as well as have banking experience. Thus, the quality of management to ensure risk and timely services is essential to the financial success of microfinance portfolios (Berenbach and Churchill, 1997).

Portfolio risk arises because most loans are unsecured and alternative forms of collateral, such as character references and group guarantees, may not be legally enforceable and have little liquidation value. If borrowers believe that they will not have access to further loans, this removes one of the major incentives to repay. Additionally, it is argued that MFIs are more susceptible to sector or geographic concentration risk as their clients are more likely to come from a single geographic area or market segment that is vulnerable to common economic shocks (Christen and Rosenberg, 2000). Also, unlike other financial institutions, their products tend to have highly specialized portfolios that consist of short-term working capital loans to informal sector clients.

New industry risk results from the fact that this is a relatively new industry and the products, services and methodologies are relatively new and untested. Its growth has to be managed carefully and the challenge lies in developing a trained cadre of employees, implementing standard policies and procedures and maintaining portfolio quality. Additionally, there is little knowledge about the market’s performance over time and most institutions are relatively young (Christen and Rosenberg, 2000).

Developing the regulatory framework for MFIs

Differences between MFIs and traditional formal financial, and the risk profiles highlighted above, mean that a modified approach is required to the regulation and supervision of MFIs to improve on product and service delivery. The following are some of the considerations that need to be borne in mind.

Firstly, minimum capital requirements should be lower than for banks. The small loan amounts would mean an inordinate number of clients would be necessary to attain adequate leverage. A decision also needs to be made as to what form this minimum capital should take. It has been suggested that performance benchmarks such as capital adequacy ratios should be higher for MFIs than for comparable banks because of the risk profile of MFIs, particularly with regard to management and portfolio risk.

Secondly, due to the ownership and governance structure of MFIs, supervisory tools used for banks, such as capital calls, would not be suitable for MFIs (Staschen, 1999b; Christen and Rosenberg, 2000). Preventing an MFI from lending would lead it into worse financial condition extremely quickly as clients often repay loans in the hope of accessing another. Therefore, if an MFI were to stop new lending, it is likely to result in existing loans not being repaid. The MFI’s principal asset, microloans, is valueless once it is out of the hands of the team that originated the loans. With regard to provisions and write-offs, the higher volatility of the loan portfolio quality and shorter loan periods means reserves should be more conservative and write-offs made earlier than in traditional FIs while catering for different loan terms.

Regulatory approaches

The literature identifies five central bank based regulatory approaches to the regulation and supervision of microfinancial institutions namely, no regulation, self regulation, delegated supervision, existing law, special law and alternatives to central bank regulations.

No regulation

To date microfinance's has become essentially evolved outside regulatory framework. Consequently MFIs have been free to innovate and develop non traditional approaches to the provision of financial products and services. As the cost of designing, developing and implementing regulation is more than likely to exceed the benefits of leaving the industry without regulation regime. Christen and Rosenberg (2000), state that supervision of microfinances is likely to be much more expensive given that microfinances have a smaller asset base, a much larger number of accounts and a higher degree of decentralization. In addition, regulation and supervision may inadvertently cramp competition and stifle innovation, hampering efforts to maximize outreach.

Self regulation

Is also referred to as self supervision, refers to 'the industry developing its own supervisory and governance boardies'Berenbach and Churchil (1997) and the adoption of the code of conduct (Staschen, 1999). Christen and Rosenberg (2000) defines self regulation as the arrangements under which the primary responsibility for monitoring and enforcing prudential norms lies with the board that is controlled by the organization to be supervised usually a members controlled federation of microfinances. The main advantage of self regulation is that the supervisory agency in this case possesses more expertise and technical knowledge of practices within the industry than the public agency would. Secondly the rules issued are less formalized than those of the public regulatory regime. This reduces the cost of rule making, facilitates quick adaptation of rules to developments and changing economic conditions permits more flexible enforcements. Lastly, the costs are typically borne by the industry as opposed to taxpayer, Majone (1996).

However, according to Christen and Rosenberg (2000) self regulation of financial institutions in poor countries has repeatedly proven to be ineffective, the main reason being conflict of interest that inevitably arises.

Delegated supervision approach

Is one in which the regulatory authority contracts a third party, for example an accounting or consultant firm, to perform some or all of the supervisory functions. This is also referred to as the hybrid approach (Berenbach and Churchil, 1997). The supervisory agency maintains legal authority over and responsibility for the supervised institutions, but delegates regular monitoring and onsite inspection the third party. The agent might be a microfinance association, apex institution or an independent technical entity.

Existing law approach

Refers to regulating microfinances within the existing legal and regulatory practices to address the unique risk profiles of microfinances (Berenbach and Churchill, 1997). This can be costly and may require organizational changes to the structure of microfinance institutions and additional requirements resulting in increased operational costs. It is based on the assumption that microfinances are doing time business.

Special law approach

Some countries have created a distinct legal and regulatory framework for non-bank microfinances. The creation of the special law or separate window is justified on the need to develop standards better suited to the microfinance sector and lower barrier to entry. The main advantage of this approach is that it permits microfinances to pursue their goals and maintain their distinct characteristics whilst providing a reduced range of financial services without necessarily becoming banks. Christen and Rosenberg (2000) suggests that it is still premature for most countries to adopt this approach for microfinances.

Alternatives to 'central bank' based regulatory approaches to MFIs

Central banks may not be ideally placed to supervise MFIs, nor may it be appropriate to supervise MFIs in the same manner as other FIs. Alternative options to the regulation and supervision of MFIs by central banks have been suggested. These include the use of rating agencies, savings guarantee schemes, market driven deposit insurance and voluntary registers.

RESEARCH METHODOLOGY

The researcher used the descriptive research design. The data that was gathered for the purpose of the research was obtained from respondents by way of questionnaires and interviews. Data was obtained through conducting a field research from the MFI's and RBZ officials. Questionnaires and interview questions were pre-tested before going to the field to check that the required data would be gathered. The target population comprised of about 300 micro financial institutions

Table 1. Distinctive characteristics of MFIs

Characteristic	Description
Client profile	Low income and poor households Employed in the informal sector or self employed Lack traditional collateral Interlinked household and microenterprises activities Predominantly women
Lending technology	Group or individual loans Simple and minimal documentation Cash flow and character based
Loan portfolio	Working capital, short term loans, repeat loans Clients mostly women
Collateral	Collateral substitutes e.g. group lending ,joint liability ,peer pressure Non traditional forms e.g. household items
Culture	Poverty reduction Provision of social services e.g. skills training

Adapted from APO (2006: 16)

located across the country. Judgmental sampling was used to select the 100 MFIs constituting the sample to eliminate bias.

FINDINGS AND DISCUSSION

Product and Service Delivery of MFIs.

The findings show that a variety of loan products were offered by MFIs, the most common being agriculture loans (53%) and trade and commercial loans (26%).Only one of the MFIs surveyed provided credit to start ups. The majority of micro finances required borrowers to have existing income generating activities, thus providing entrepreneurial abilities. The survey showed that other services offered by MFIs included savings, foreign exchange transactions and funds transfers, in addition to loans. Fifty(50%) MFIs indicated that institutions do provide savings facilities but for most of them it was forced savings that they require their members to have. Very few (16%) offered savings as a service. This has been due to the fact that the existing legislative environment does not permit the mobilization of deposits by and organisation not licensed under the Banking and Financial Service Act (BFSA). However, RBZ had tended to turn a blind eye to forced savings, as depositors in such situations were usually net borrowers of the MFI.

Impact of regulation on growth of MFIs

From the survey all (100%) respondents were of the view that the regulatory policy improves the product and service delivery of MFIs. Also fifty percent of formal MFIs strongly agreed that regulation of MFIs result in provision of innovative financial products. The explanation being that regulation will affect the outreach of the industry depending on whether the regulations succeed in promoting growth through excellent service provision or act as a further hindrance in the development of the sector.

The rationale for regulation of MFIs

A number of reasons were given to regulate the microfinance sector by the different respondents. All (100%) the respondents pointed out that the main reasons for regulation are customer and investor protection, financial stability and boosting investor confidence.
Depositor protection, financial system stability, increased access to funding, investor protection, setting standards and ground rules, enhanced credibility, prevention of money laundering and monitoring MFIs

Impact of regulation of MFIs on price flexibility in MFIs

From the survey it was found that 50% of formal MFIs, regulators and banks strongly agreed that the regulation policy result in price flexibility. However, most informal MFIs did not agree that regulation result in price flexibility. The explanation was that regulation is advocated to prevent the poor from being exploited, especially with regard to high interest rates either by setting interest rates ceilings, or through a clear and transparent disclosure of interest and charges.

Importance of supervisory agencies of MFIs

Most microfinances in Zimbabwe are served by a variety of microfinance providers with a variety of legal forms registered under different Acts. From the findings 50 of the formal MFIs and all the banks indicated that they have a supervisory agency while all informal MFIs depended on self regulation. The formal MFIs and banks had met the required standards for the licensing of their industries while informal MFIs were at their infancy level and could not meet the requirements for licensing.

Supervisory Agencies

From the findings the RBZ was the main supervisory agency with others being regulated by other supervisory agencies such as Registrar of cooperatives, Registrar of Societies, ZAMFI, Donors and Boards. The main reason of RBZ being the main regulatory agency was because of expertise and also was to ensure MFI's gained investor protection. Overall, formal MFIs and banks thought RBZ was best placed to regulate the microfinance sector because it was responsible for the financial sector, had the relevant expertise and was already established. However, informal MFIs did express reservations about the RBZ regulating the microfinance sector. Ideally, informal MFIs say governments should exit the microfinance sector. Short of this, they should act to ensure transparency and reinforce market mechanisms by providing for specific line item budgetary disclosure and annual reporting for all government microfinance activities, and lending only at commercial rates (wholesale and retail). Some respondents echoed many reasons why the RBZ should not regulate MFI's among which include, lack of understanding, capacity constraints, regulating is costly, lack of independence. Respondents raised the following concerns about RBZ regulating i.e. increase in MFI costs, restriction on MFI operations and placing MFIs out of business

Significance of regulation on MFIs

From the findings, fifty percent of respondents felt that the MFI sector needed to be regulated. In their view, the debate was not about whether the microfinance sector should be regulated, but the manner in which regulation is structured as it should not stifle initiative and growth. Regulation should be scaled to deal with the different types of MFIs and must take into account that MFI participants come in various sizes and shapes. It should be tiered and focused on regulating the bigger players who are likely to have impact on the market. Though the regulatory environment for microfinances is crucial if they are to develop and innovate, inappropriate regulation could well do considerable harm.

From the survey, 25% of formal MFIs strongly disagreed that all MFIs should be subject to regulation. Their notion was that, regulatory reform relating to the microfinance sector should follow the fundamental tenant of prudential regulation: that deposit-taking institution must be regulated, while non deposit-taking microfinance institutions could be left to the market for disciplining. In other words, the liability side of the balance sheet determines the need of regulation and supervision of a financial institution (Meagher, 2002). However both of the two regulators surveyed agreed that all the MFIs should be regulated, but considering the distinctive level of growth of the different MFIs.

Impact of threshold on regulation

From the survey results, 30 formal MFIs strongly agreed that regulation of MFIs should be triggered by certain thresholds. Henne van Greuning *et al* (1999) identified thresholds in financial intermediation activities that triggered a requirement for microfinances to satisfy external or mandatory guidelines. This suggests that regulation of microfinances could be triggered by certain thresholds in terms of number of members, on the basis that it would be unrealistic for any agency to supervise all the microfinances. On the other hand, the framework also appeared to cover credit-only microfinances that meet the membership threshold.

This is in agreement with Christen *et al* (2000) who suggested that there should be an explicit "lower boundary" based on assets, number of members or other appropriate variables, below such institutions would be free of regulation. This suggests that it does not appeal practical to regulate the full range of microfinances because some of them would not meet the thresholds declared. In Zimbabwe findings show that some registered microfinances failed to meet the minimum capital requirements as set by the RBZ in 2012 and were forced to exit the industry impacting product and service delivery and growth of MFIs.

CONCLUSION

Although the study was carried out using MFIs in Zimbabwe, the research findings did have more general relevance to the regulation of microfinance in many developing economies especially in Africa and parts of Asia. Based on the research findings it can be concluded that the introduction of well designed and effectively implemented microfinance regulations alone is not sufficient to promote product and service delivery and produce viable sustainable MFIs. It can also be concluded that the introduction of microfinance legislation must be accompanied by the effective implementation of regulatory and supervisory policies for it to have an impact. Therefore, capacity building has an important role to play in ensuring the effective enforcement, sanctions, and monitoring of regulation.

Recommendations

In light of the above conclusions, it is recommended that regulators should Permit "credit-only" non-depository MFIs to lend freely without prudential supervision, abolish financially repressive prudential regulations, adjust prudential standards to reflect the specialized nature of microfinance and lower minimum capital requirements. In addition to what is mentioned above, there are a number of actions governments can take to improve the business environment for microfinance, these include; focusing on macroeconomic stability, strengthening the banking system, developing infrastructure especially in rural areas, encouraging the development of credit assessment mechanisms and encouraging the establishment and streamlining of registration and titling systems for assets owned by rural and poor urban households.

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