

# How is microfinance being regulated in Latin America?

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*Microfinance regulation is a complex and constantly evolving topic, comprising many and very diverse issues which, moreover, are treated differently by legal systems. This paper suggests a novel comprehensive analysis structure that may serve as a benchmark to analyse different regulation frameworks for microfinance, based on the international guidelines provided by the Association of Supervisors of Banks of the Americas, the Basel Committee for Banking Supervision, and the Consultative Group to Assist the Poor. This structure is then used to compare and relate the regulations of 17 Latin American and Caribbean countries.*

**Keywords:** regulation, microfinance, Latin America and the Caribbean

THE NEED TO REGULATE MICROFINANCE as a part of the financial system is a consequence of the level of development reached by this industry during recent decades, in terms of market size, the employed methodologies, and, overall, the progressive expansion of the range of products offered by the different types of microfinance institutions (MFIs). Such products include microsavings, microinsurance, and remittances, and all of them imply new financial risks. According to Ledgerwood and White (2006) and Lauer and Staschen (2013), the microfinance sector has distinctive features and specific risks requiring a differentiated treatment from that applied to financial institutions in general, mainly specific rules for products directed to the bottom of the pyramid, or related to the peculiar property structure or institutional risks of the different institutions providing microfinance services. While there is a widely spread consensus on the need for this different regulatory approach, there is dispute over *how different* it should be. Econometric analyses are not yet of much help in this matter, since time series data are too diverse, scarce, and short, and the research on the effects of regulation usually relies on qualitative studies (Vogel and Schulz, 2011) or on correlation analysis (Trujillo et al., 2014).

Most of the related literature, therefore, has focused either on describing and comparing existing regulations (as in Vogel, 2012) or, especially in the case of

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<http://dx.doi.org/10.3362/1755-1986.2015.028>, ISSN: 1755-1978 (print) 1755-1986 (online)

international institutions, on providing guidelines for regulators on the basis of perceptible best practices (Association of Supervisors of Banks of the Americas, ASBA, 2010; Basel Committee for Banking Supervision, BCBS, 2010; Consultative Group to Assist the Poor, CGAP, 2012). Following a middle way, this paper suggests a novel comprehensive analysis structure that may serve as a benchmark to analyse different regulation frameworks for microfinance, based on 63 core criteria from the guidelines provided by ASBA (2010), BCBS (2010), and CGAP (2012), and then applies it to compare and relate microfinance regulations in a group of Latin American and Caribbean countries. This is not to say that either the guidelines or the chosen core criteria are to be considered as definitive or undisputed; rather, they are taken for systematic purposes, aware as we are that more conclusive assessments shall only be possible when data and knowledge on effect modelling so permit.

As regards the choice of the target countries, the analysis is limited to Latin American and Caribbean countries because of their relatively wide cultural and legal similarities, also generally present in the development of their microfinance industries. Starting from a homogeneous base helps better highlight convergent and divergent trends in microfinance regulation. The analysed group consists of 17 countries within the region where microfinance is most significant in terms of institutions, portfolio, and regulation: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, and Uruguay.

### **Regulation: contents, justification, and covered areas**

The goal of microfinance regulation as part of the financial system is the promotion of capital accumulation and the efficient allocation of resources, as well as the safety, stability, and soundness of financial providers. More recently, emphasis has been placed on financial inclusion initiatives as a policy objective that many countries are endorsing (Alliance for Financial Inclusion, AFI, 2011), on building and better regulating financial infrastructure in order to make financial services more accessible (e.g. mobile banking or third parties as agents rules), and on improving or designing financial consumer protection frameworks due to the lack of financial experience and education of microfinance consumers.

Microfinance regulation must deal with the same kinds of problems as financial regulation, such as adverse selection, moral hazard, and information asymmetry problems, as well as the dominant position of the financial institutions over inexperienced customers. However, sometimes regulation has other objectives beyond economic efficiency, such as promoting the industry or increasing financial inclusion. The design of the microfinance regulatory framework must take into account both sorts of policy objectives.

### ***Prudential regulation, non-prudential regulation, and supervision***

Legal rules to control and monitor the financial system are usually classified as prudential regulation, non-prudential regulation, or supervision rules. Prudential

regulation is designed to protect the system integrity by preventing systemic risk, and to protect small savers at MFIs given that they lack monitoring conditions or capacity. To achieve these objectives, rules attempt to restrict in an effective way the danger of opportunist behaviour by market players, to restrain any situation of excessive risk-taking, and to guarantee banking system stability (Staschen, 2000; Peck et al., 2003).

There is no full consensus on the topics covered by prudential regulation or the contents of each topic, except on the need to apply it to institutions that take deposits from the public (Hulme and Arun, 2009), even when they are NGOs. This kind of regulation is desirable even when MFIs do not compromise financial system stability, justified by the need to count on a sustainable and sound supply (ASBA, 2010).

Non-prudential regulation is directed towards guiding the 'business behaviour' of MFIs, with objectives related to efficiency and equity (Rosengard, 2011) but not necessarily related to solvency or systemic risk requirements. This wide and diverse set includes rules that are typically directed to steer the institutional development of an MFI and its relationship with its clients (Sundaresan, 2008; Peck et al., 2003) and to improve the quality of microfinance markets.

Banking supervision is designed as a process whose main goal is to evaluate institutions, ensuring they quantify correctly their capital needs according to their existing risks, and intervening in their daily activities only when it is necessary. An effective supervision comprises a set of activities and monitoring actions regarding licence requirements, prudential supervision requirements, financial institutions' information requirements, and *in situ* supervision of financial institutions' activities. It also includes remedial actions and sanctions when the institution fails to comply with the regulation (Ledgerwood and White, 2006).

### ***Protection vs. promotion regulation, general vs. specific regulation***

In addition to the aforementioned classification, the aims and orientations of the regulatory framework in each country allow us also to discriminate between protection and promotion rules. Protection rules may be considered as those directed to preserve the financial sustainability of MFIs, the stability of the financial system as a whole, or to protect consumers, while promotion rules are those directed to ease the development of MFIs or to favour the commercialization of microfinance products.

We believe it is also interesting to classify rules in microfinance regulation as general or specific. General rules are designed to improve the performance of all kinds of financial institutions, without recognizing any kind of difference for microfinance products or institutions, while specific rules are designed ad hoc for the microfinance sector, which usually implies the previous recognition of the specific features of microfinance products or institutions. These newly proposed categories allow us to classify microfinance rules into four different types: general protection rules (GPT), general promotion rules (GPM), specific protection rules (SPT), and specific promotion rules (SPM).

## The structure of microfinance regulation

CGAP, ASBA, and BCBS provide sets of guidelines for microfinance regulation, from different points of view. CGAP (2012) focuses on the design of the regulatory and supervisory frameworks for microfinance and the performance of private players, including NGOs. ASBA (2010) analyses the appropriateness of applying the recommendations issued by the Basel Committee on Banking Supervision to the microfinance industry. Finally, BCBS (2010) analyses the specific features of microfinance activities and relates them to the Basel regulation principles.

On the basis of their reports we have set up a comprehensive structure with 63 core criteria for the design of microfinance regulatory frameworks, chosen on the grounds of soundness, representativeness of a given aim, and consensus among the different guidelines. These criteria will be presented next according to the aforementioned categories and types (prudential, non-prudential, supervision, GPT, GPM, SPT, and SPM) and their proposers (CGAP, ASBA, or BCBS).

Considering prudential regulation, Table 1 presents the guidelines that have attracted a wider consensus to design capital regulation for the microfinance sector, aimed to guarantee solvency by covering financial intermediation risks. Table 2 shows the main guidelines used to evaluate risk management, usually linked to MFIs' long-term achievement. An effective risk administration consists of a set of processes created to manage adverse events, and helps to constitute a warning system useful to prevent potential problems. Its major role is preventive; therefore the regulation aims to generate indicators that work as clues of potential financial

**Table 1** Guidelines for capital requirements

	<i>Type</i>	<i>Proposer(s)</i>
<b>Minimum capital requirements</b>		
(CS) Capital sufficiency. It should also constitute an entry barrier (in the regulated sector) for too-small MFIs	GPT	ASBA CGAP BCBS
(CN) Set capital requirements in ordinary and easy-to-amend legal rules	GPT	CGAP
(CA) Consider the possibility to require additional capital amounts for unexpected losses and fluctuations	GPT	ASBA
(CRC) Capital requirements in cooperatives should focus on accumulated profits. Regulation should restrict the withdrawal of member contributions when minimum capital falls down below pre-established levels	GPT	CGAP BCBS
(CR) Require lower capital amounts for non-banking institutions than for banking institutions (CGAP advises to request the same capital requirements for all institutions at the beginning of their activity)	SPM	BCBS
<b>Solvency</b>		
(SR) Require deposit-taking MFIs to run higher solvency coefficients	SPT	CGAP
(SJER) Set more burdensome solvency requirements in contexts where non-banking institutions have fewer or riskier options to raise additional capital	SPT	ASBA BCBS

**Table 2** Guidelines for risk management regulation

	<i>Type</i>	<i>Proposer(s)</i>
<b>Credit risk</b>		
(RCM) Differentiate microcredit portfolio from other credit portfolios	SPT	ASBA CGAP BCBS
(RCP) Require loan loss reserves to non-performing microcredit portfolio with a more demanding schedule (BCBS, only to reschedule loans)	SPT	CGAP BCBS
(RCV) Limit in a conservative way (or even prohibit) related parties' transactions in MFIs, including transactions with directors or managers	SPT	ASBA CGAP BCBS
(RCC) Set more restrictive requirements for MFIs (compared with banks) on the maximum loan size	SPT	ASBA BCBS
(RCR) Classify renegotiated microcredits under a higher risk category than other non-performing loans	SPT	BCBS
(RCE) Limit total indebtedness of the micro borrower in relation to his or her capacity for repayment	SPT	ASBA
(RCD) Simplify required documentation to microcredit borrowers	SPM	CGAP BCBS
(RCL) Do not restrict microcredit portfolio size to a percentage of total equity	SPM	CGAP
(RCPG) Do not require specific or higher provisions for the good standing microcredit portfolio	SPM	CGAP
(RCVC) Do not restrict credit access to members that are not part of the management structure of the cooperatives	GPM	CGAP BCBS
<b>Liquidity risk</b>		
(RL) Set higher liquidity requirements for specialized or non-banking institutions	SPT	CGAP
(RLD) Soften reserve requirements for micro deposits	SPM	CGAP
(RLLF) Set limits to the concentration of funding from a single source in non-banking institutions that offer microfinance services	SPT	BCBS
<b>Interest rate, operational and market risk</b>		
(RTI) Require instruments to manage interest rate risk according to the complexity of the microfinance products	SPT	BCBS
(RO) Design operational risk management considering the specific features of microfinance	SPM	ASBA CGAP BCBS
(RM) Soften market risk regulatory requirements during the first year of activity of the non-banking institution or microfinance bank funded mainly with foreign currency, until these institutions are able to get more funding based on local currency deposits	SPM	BCBS
(RMPN) Limit the net open position of MFIs according to their minimum capital or profits	SPT	CGAP BCBS
(RMI) Analyse significant acquisitions and investments to confirm there is no risk	GPT	BCBS

**Table 3** Guidelines related to institutional issues

	<i>Type</i>	<i>Proposer(s)</i>
<b>Licences</b>		
(LBR) Grant licences according to institutional risk, assessing the ownership structure and the stakeholders	GPT	ASBA BCBS
<b>Permitted activities</b>		
(APD) Specify and define permitted activities for MFIs, taking into account size and risk management capacity	GPT	CGAP BCBS
(APSM) Do not permit the creation of insurance products	SPT	CGAP
(APPM) Enable MFIs to intermediate microinsurance and group insurance policies	GPM	CGAP
(APSV) Enable specialized MFIs to issue life microinsurance linked to credit operations	GPM	CGAP
(APIP) Do not authorize to take deposits from the public to ownerless institutions, such as NGOs	SPT	BCBS
<b>Deposit insurance</b>		
(SD) Treat equally all types of financial institutions regarding deposit insurance	GPT	ASBA CGAP
<b>Internal control and audits</b>		
(CAI) Provide clear rules about delegation of authority, staff functions, and responsibilities	GPT	ASBA BCBS

**Table 4** Guidelines for consumer protection regulation

	<i>Type</i>	<i>Proposer(s)</i>
(PCEF) Implement specific rules for the protection of the financial consumer	GPT	ASBA CGAP
(PCTI) Do not set ceilings on interest rates	SPM	ASBA CGAP
(PCI) Require agents or any third party acting on behalf of the MFI to inform customers about this third-party relationship	GPT	CGAP
(PCSC) Set simple and low-cost mechanisms to solve consumer complaints	GPT	ASBA CGAP

problems and then implement measures in order to avoid them in advance. Finally, Table 3 presents the guidelines designed to regulate issues related to the institutional and organizational structure of MFIs.

As regards non-prudential regulation, consumer protection is usually considered as a regulatory response to information asymmetry between consumers and micro-finance providers. Guidelines to regulate this topic, presented in Table 4, are very similar to the ones applied to the financial system as a whole. Table 5 reviews the guidelines for the regulation of microfinance regarding the institutional structure, while Table 6 shows public law criteria that usually deal with non-financial issues strongly related to the development of the industry.

**Table 5** Guidelines related to the regulation of property, third parties, licences, and transformation of MFIs

	Type	Proposer(s)
<b>Property and government of MFI</b>		
(PGR) Avoid restrictions over foreign investment or foreign directors in non-banking institutions	SPM	CGAP
(PGA) Analyse moral and financial solvency of shareholders with board representation or noteworthy participations	GPT	ASBA CGAP BCBS
<b>Third parties as agents</b>		
(TINF) Enable and regulate the use of third parties as MFI agents or correspondents	GPM	CGAP
(TISP) Payment system regulation should pursue broader interoperability between traditional and small financial institutions	GPM	CGAP
(TIAP) Enable third parties to open accounts and deal with cash services	GPM	CGAP
(TIR) Set clear rules about financial institutions' liability for third parties' actions as agents or correspondents	GPT	CGAP
<b>Licence requirements</b>		
(LP) Require and evaluate training schemes for credit officers, in order to reduce weakness in the governance framework	GPT	BCBS
(LC) Rules for the authorization of cooperatives must include thresholds, such as a maximum number of members or a limited geographical area	GPT	BCBS
<b>Transformation of MFI</b>		
(TRI) Set a coherent procedure to transform non-regulated into regulated institutions	SPM	CGAP BCBS

**Table 6** Guidelines related to public law

	Type	Proposer(s)
<b>Credit information services</b>		
(SRCO) Require financial institutions to participate in centralized credit information services	GPT	ASBA BCBS
(SRCI) Include positive information about clients' credit history	GPM	CGAP
(SRCA) In the absence of credit information systems, establish regulatory incentives to favour information reports and force institutions to share credit information	GPT	CGAP
(SRCPP) Do not prohibit the creation of private credit information systems	GPM	CGAP
<b>Proactive measures</b>		
(ERCR) Promote periodic risk assessment of MFIs by leading international companies	GPT	ASBA
(ERCC) Do not require microfinance or finance institutions to implement minimum microcredit portfolio quotas	GPT	ASBA
<b>Financial crime</b>		
(IF) Simpler controls for microfinance products	SPM	CGAP BCBS
(IFAC) Flexible, risk-based approach on third-party activities	GPM	CGAP

**Table 7** Guidelines for microfinance supervision

	Type	Proposer(s)
(SED) Supervise deposit-taking institutions	GPT	ASBA CGAP BCBS
(SE) Create a specialized department for microfinance supervision	SPT	ASBA CGAP BCBS
(SC) Regulate cooperatives above a specific size and serving non-members	GPT	ASBA CGAP BCBS
(SI) Design information reports according to supervisory needs and institutional features. Require simpler requirements to institutions that do not take deposits	SPM	CGAP BCBS
(SID) <i>In situ</i> and remote supervision procedures	GPT	ASBA CGAP BCBS
(SAE) Require MFIs to grant supervisors access to external and internal audits reports	GPT	ASBA CGAP BCBS
(SPS) Grant sufficient enforcement powers to supervisors	GPT	BCBS
(SRD) Apply the same disciplinary regime to all institutions	GPT	BCBS
(SSC) Design specific tools regarding sanctions and corrective measures in MFI	SPM	BCBS CGAP

Finally, Table 7 focuses on activities that are essential to achieve an effective supervision, together with the necessary remedial and corrective powers. Due to the specific features of microfinance activities, supervision of the industry requires us to go beyond the traditional regulatory design and carefully evaluate the specific risks.

### Implementation level of international regulation guidelines in Latin American countries

Due to the complexity of microfinance regulation, the diversity of topics, and the fact that the specific regulatory frameworks are hardly ever defined explicitly, there are very few in-depth studies focusing on the different approaches and common features of the regulation of microfinance in Latin America. In an attempt to fill this gap, we have evaluated the legal frameworks described in Tables 1 to 7 for 17 Latin American countries (as of June 2012). The results have been summarized in Tables 8, 9, and 10. As a general rule, a plus symbol (+) appears when it can be considered that the regulation in the evaluated country is in line with the analysed guideline, and a minus symbol (–) when it is not. In some cases, where the nature of the criteria allows it, a plus symbol (+) appears when the country is in line with the guideline, a minus symbol (–) when the country regulation goes the opposite way,



**Table 8 Prudential regulation**

	Capital						Solvency						Credit risk						Liquidity risk						Interest rate risk			Operational risk			Market risk			Licences			Permitted activities			Deposit insurance			Internal control and audits		
	CS	CN	CA	CRC	CR	CAI	SR	SJER	RCM	RCP	SPT	SPT	RCV	RCC	RCR	RCE	RCD	RCL	RCPC	RCVC	RL	RLD	RLLF	RTI	RO	SPM	SPM	SPM	SPM	SPM	SPM	SPM	RM	RMPN	RMI	LBR	APD	APSM	APPM	APSV	APIP	SD	GPT	CAI	GPT
	GPT	GPT	GPT	GPT	SPM	SPM	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	SPT	GPT	GPT		
Argentina	+	+	-	+	+	+	0	0	+	0	+	+	0	0	+	+	+	+	+	0	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	+	+	+	+	+	+	+	+		
Bolivia	+	+	+	+	+	+	-	0	+	+	+	+	+	0	+	+	+	+	+	+	0	+	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Brazil	+	+	-	+	+	+	0	0	+	0	+	+	+	+	-	-	0	+	+	+	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Chile	+	-	-	+	+	+	0	0	-	NA	+	+	+	+	-	-	NA	NA	NA	+	0	-	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Colombia	+	-	-	+	+	+	0	0	+	+	+	+	0	0	-	-	0	+	+	+	0	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Costa Rica	+	-	-	+	+	+	0	0	-	NA	-	-	-	-	+	-	NA	NA	NA	+	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	NA	+	+	+	
Ecuador	+	+	-	+	+	+	+	0	+	+	+	+	0	0	+	-	+	+	+	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
El Salvador	+	+	-	+	+	+	0	0	-	NA	0	+	0	+	+	-	NA	NA	NA	+	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Guatemala	+	+	-	NA	+	+	0	0	+	+	+	+	0	0	+	-	+	+	+	NA	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Honduras	+	+	-	-	+	+	+	0	+	+	+	+	+	+	+	-	+	+	+	+	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Mexico	+	-	-	+	+	+	0	0	-	NA	+	+	+	+	+	-	NA	+	+	+	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Nicaragua	+	+	-	NA	+	+	0	0	+	+	+	+	0	0	+	-	0	+	+	NA	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Panama	+	-	-	NA	+	+	+	0	+	+	+	+	+	0	+	-	0	+	+	NA	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	NA	+	+	+	
Paraguay	+	+	-	NA	+	+	0	0	+	+	+	+	0	0	+	-	+	+	+	NA	0	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Peru	+	-	+	+	+	+	0	0	+	+	+	+	0	0	+	+	+	+	+	+	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Dominican Republic	+	+	-	NA	+	+	0	0	+	+	+	+	0	0	+	-	+	+	+	NA	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Uruguay	+	+	-	+	+	+	+	0	-	NA	0	+	0	+	-	-	NA	NA	+	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	+	
Total	17	11	2	11	17	4	0	12	10	6	7	12	3	7	12	10	12	10	12	1	2	3	0	0	0	0	0	0	0	0	15	17	11	15	16	13	1	11	9	17					

Note: NA = Not applicable.

Source: Compiled by authors based on the regulatory framework of each country. Criteria related to cooperatives are evaluated with a plus sign only when cooperatives are regulated and under the supervision of financial authorities.

and a neutrality symbol (o) if no regulation exists on the issue (namely, for SR, SJER, RCP, RCC, RCD, and IFAC; see Tables 1, 2, and 6 for explanation of abbreviations).

Table 8 shows the evaluation of the criteria classified as prudential regulation, revealing that some of these (capital sufficiency, lower capital requirements, limit insurance capabilities, and internal control) have been widely integrated in national regulatory frameworks, while some other guidelines have not yet been adopted by any country (especially some related to non-credit risks).

As regards non-prudential regulation, the analysis summarized in Table 9 shows that there exists a wide variety in the level of implementation of the different analysed criteria, with only 4 criteria (out of 20) widely implemented by most countries, namely those related to property and governance and to credit information services. However, criteria related to licence requirements and institutional transformation regulations have rarely been implemented. All countries but Mexico require financial institutions to participate in centralized credit information systems, and most of them also require inclusion of positive information on those registries. Note that Peru and Bolivia have adopted the highest number of prudential and non-prudential criteria; they are also identified in the literature (Economist Intelligence Unit, EIU, 2012) as having the best regulatory environment in the region.

Table 10 shows the result of the implementation of the criteria related to microfinance supervision in the analysed national regulatory frameworks.

Most supervision criteria belong to the *general* category and have been implemented by many countries. In fact, five out of nine criteria, which belong in all cases to the *protection* category, have been adopted by all or most countries. The three criteria least frequently implemented are categorized as *specific* for the microfinance sector. Note that only Peru has a specific division or department for the regulation and supervision of the microfinance sector. Organization of supervisory agencies in other countries is usually guided by the different existing institutional types, or just split between banking and non-banking institutions, which does not guarantee the specialization of the staff in microfinance.

Table 11 summarizes the level of implementation of the criteria analysed for the region. It must be pointed out that the fulfilment of a certain number of criteria alone cannot be considered enough to assess the level of development of a microfinance regulatory framework, even to compare it with the regulatory framework of some other countries. Data provided in Table 11 should instead be interpreted as a set of indicators about trends, consensus, commitments, and gaps by different regulatory bodies.

Even though different criteria cannot be added or analysed in bulk, since their relevance and outreach are quite dissimilar, some information may be inferred from the information provided in Table 11. It can be observed that the level of implementation of general and protection rules is wider than the level of implementation of the other categories, probably because these rules have reached a higher level of consensus, even outside the microfinance industry. Regarding the criteria that belong to the promotion or protection categories, we can appreciate a clear orientation toward the latter. The case of Honduras is interesting, since it shows a good implementation of guidelines as regards specific criteria, but it often

**Table 9** Non-prudential regulation

	Consumer protection						Third parties as agents						Licences			Credit information services						Property and governance			Institutional transformation			Financial crimes			Proactive measures																					
	PCTI		PCI		PCSC		TINF		TISP		TIAP		TIR		LP		IC		SRCO		SRCI		SRCR		SRCPP		PCR		PGA		TRI		IF		IFAC		ERCR		ERCC													
	GPT	SPM	GPT	GPT	GPT	GPT	GPM	GPM	GPM	GPM	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT	GPT														
Argentina	-	+	NA	-	NA	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+												
Bolivia	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+									
Brazil	-	-	+	-	-	-	+	-	-	-	-	+	+	+	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+							
Chile	+	-	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+						
Colombia	+	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+					
Costa Rica	+	-	NA	+	NA	+	-	NA	NA	NA	NA	NA	NA	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+					
Ecuador	+	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+			
El Salvador	+	+	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+			
Guatemala	-	-	-	-	-	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+		
Honduras	+	-	NA	+	NA	+	-	NA	NA	NA	NA	NA	NA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Mexico	+	+	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	
Nicaragua	+	-	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	
Panama	+	+	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	
Paraguay	-	-	+	-	-	-	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	
Peru	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Dominican Republic	+	+	NA	+	NA	+	-	NA	NA	NA	NA	NA	NA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Uruguay	+	-	NA	+	NA	+	-	NA	NA	NA	NA	NA	NA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
<b>Total</b>	<b>13</b>	<b>7</b>	<b>5</b>	<b>13</b>	<b>12</b>	<b>1</b>	<b>11</b>	<b>10</b>	<b>6</b>	<b>2</b>	<b>16</b>	<b>13</b>	<b>0</b>	<b>17</b>	<b>15</b>	<b>17</b>	<b>2</b>	<b>13</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>17</b>	<b>15</b>	<b>17</b>	<b>2</b>	<b>13</b>	<b>0</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>16</b>					

Note: NA = Not applicable

Source: Compiled by authors based on the regulatory framework of each country

Table 10 Supervision

	<i>SED</i>	<i>SE</i>	<i>SC</i>	<i>SI</i>	<i>SID</i>	<i>SAE</i>	<i>SPS</i>	<i>SRD</i>	<i>SSC</i>
	<i>GPT</i>	<i>SPT</i>	<i>GPT</i>	<i>SPM</i>	<i>GPT</i>	<i>GPT</i>	<i>GPT</i>	<i>GPT</i>	<i>SPM</i>
Argentina	+	-	+	-	+	+	+	+	-
Bolivia	+	-	+	+	+	+	+	+	-
Brazil	+	-	+	+	+	+	+	+	-
Chile	+	-	+	+	+	+	+	+	-
Colombia	+	-	+	-	+	+	+	+	-
Costa Rica	+	-	+	-	+	+	+	+	-
Ecuador	+	-	+	-	+	+	+	+	-
El Salvador	+	-	+	-	+	+	+	+	-
Guatemala	+	-	-	+	+	+	+	+	-
Honduras	-	-	-	+	+	+	+	+	-
Mexico	+	-	+	+	+	+	+	-	-
Nicaragua	+	-	-	-	+	+	+	+	-
Panama	-	-	-	-	+	+	+	+	-
Paraguay	+	-	-	-	+	+	+	+	-
Peru	+	+	+	-	+	+	+	+	-
Dominican Republic	+	-	-	-	+	+	+	+	-
Uruguay	+	-	+	-	+	+	+	+	-
Total	15	1	11	6	17	17	17	16	0

Source: Compiled by authors based on the regulatory framework of each country

chooses the opposite directions for general ones. In contrast, El Salvador is one of the countries with the highest level of implementation of general rules, but is also one of the countries that have implemented fewer specific criteria. Guatemala and Dominican Republic are also significant, since both have a high level of implementation of promotion and specific criteria, but a low or medium-low level as regards the adoption of specific and protection rules.

Regarding the implementation of prudential vs. non-prudential rules we must draw attention to the cases of Argentina and Honduras, because of their strong emphasis on the implementation of prudential rules and the low level of adoption of non-prudential criteria. The opposite happens in El Salvador and Chile, which have a high level of implementation of non-prudential criteria compared with the implementation of prudential criteria.

## Conclusions

The analysis in depth of microfinance regulation in Latin America, hampered by the fact that microfinance rules are sometimes presented as a part of the financial system regulation and are sometimes part of non-specific regulations, has led us

**Table 11** Rules implementation results according to their objectives

Prudential (34)	19	22	18	15	16	12	19	16	17	21	17	15	17	18	20	18	13
No prudential (20)	8	16	11	11	14	8	14	12	11	10	12	9	12	9	15	10	9
Supervision (9)	6	7	7	7	6	6	6	6	6	5	6	5	4	5	7	5	6
GPT (26)	18	24	20	20	20	18	24	21	17	15	17	15	16	18	23	17	18
GPM (9)	4	6	4	4	5	3	4	5	4	4	5	3	4	3	5	3	3
SPT (15)	6	8	6	6	5	3	5	4	6	10	7	6	7	5	8	6	4
SPM (13)	5	7	6	3	6	2	6	4	7	7	6	5	6	6	6	7	3
General rules (35)	22	30	24	24	25	21	28	26	21	19	22	18	20	21	28	20	21
Specific rules (28)	11	15	12	9	11	5	11	8	13	17	13	11	13	11	14	13	7
Protection rules (41)	24	32	26	26	25	21	29	25	23	25	24	21	23	23	31	23	22
Promotion rules (22)	9	13	10	7	11	5	10	9	11	11	11	8	10	9	11	10	6

NOTE: Total number of criteria (fulfilled criteria for countries) in brackets

Source: Compiled by authors

to the identification of additional categories beyond the usual separation between prudential regulation, non-prudential regulation, and supervision rules. These new categories can be grouped around the protection or promotion classes, as well as around the general or specific categories. These categories may help us to better understand the regulatory structure and to differentiate rules applied to the micro-finance sector.

The multiple categorization of financial regulation helps analyse how regulatory frameworks converge or diverge across countries. Most countries have adopted criteria regarding capital requirements and internal control, but the convergence is much lower for risks (especially non-credit risks). Rules that belong to the general category are more frequently implemented, probably because they are applicable without distinctions to the financial system, as well as specific rules mainly related to the risk management of the microcredit portfolio. Solvency requirements suggesting a differentiated treatment according to institutional types, operational or liquidity risk management, and some other capital requirements, are among the least frequently adopted criteria.

Regarding the non-prudential category, the elimination of the interest rate ceiling is one of the least implemented guidelines, similar to consumer protection rules for third parties acting as agents, or the design of a specific and flexible approach regarding financial crime rules for third parties as agents. We have also observed a high level of implementation regarding the guidelines on supervision criteria in Latin American countries. Finally, it can be noted that, at least for the analysed Latin American countries, specific measures are less frequently adopted than general measures, and promotion measures less frequently than protection ones.

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