

TWO TIER SYSTEM FOR FINANCIAL INCLUSION REGULATIONS

Basel III document released in 2016 (<http://www.bis.org/bcbs/publ/d351.htm>) has updated the 2010 Guidelines that we have extensively discussed over the past six years and actually has been a reference in point for our reasoning: “Suggestions for designing new credit models”, Microfinance Gateway, 06/2011, which has been rated among the five most read documents the year, Microfinance gateway <http://www.microfinancegateway.org/p/site/m/template.rc/1.9.51017>.

Six years ago it has been an innovative and needed document to provide central banks with rules for an uncontrolled growth of the industry.

The objective has been achieved because central banks took inspiration from the Guide and issued supervisory regulations.

The current Guidance has taken into account the market changes and has opportunely considered a wide range of institutions/organizations, some of which aren't finance providers in the classic terminology, but do contribute to facilitate the financial inclusion: *e-money issuer, financial cooperative, microfinance institution, micro lender, nonbank deposit-taking institution, nonbank financial institution, and non-financial firm.*

Vision and objectives didn't change: eventually microfinance is no longer as a distinct market, but a component of the global financial market, which comprises many circuits. This does consent to link a single MFI (now called Financial Service Provider- FSP) to a national regulatory framework and achieve country's financial inclusion. Actually microfinance has been phased out at that time (2010).

Having comprising nearly all the operators has implications on how to make effective the Guidance and here we have perceived a twofold problem: supervisors (institutions/organisations) in charge for the related tasks and the requirements, capability and skills of the responsible persons to carry out the activities.

The Guidance specific to nonbank financial institutions, which in many countries are the primary providers of financial services to *unserved and underserved* customers and includes financial cooperative, other deposit-taking institution, nonbank e- money issuer or distributor and microcredit institution.

The present providers' articulation may create confusion and open to discretionary interpretation at national level. Due to the fact that the present document has updated the previous one released in 2010 it would have been advisable to make a link with the previous group of financial providers (Banks, Other deposit taking institutions and Micro credit institutions) with the new list of providers, also on the grounds that the central banks issued regulatory frameworks referring to the 2010 document

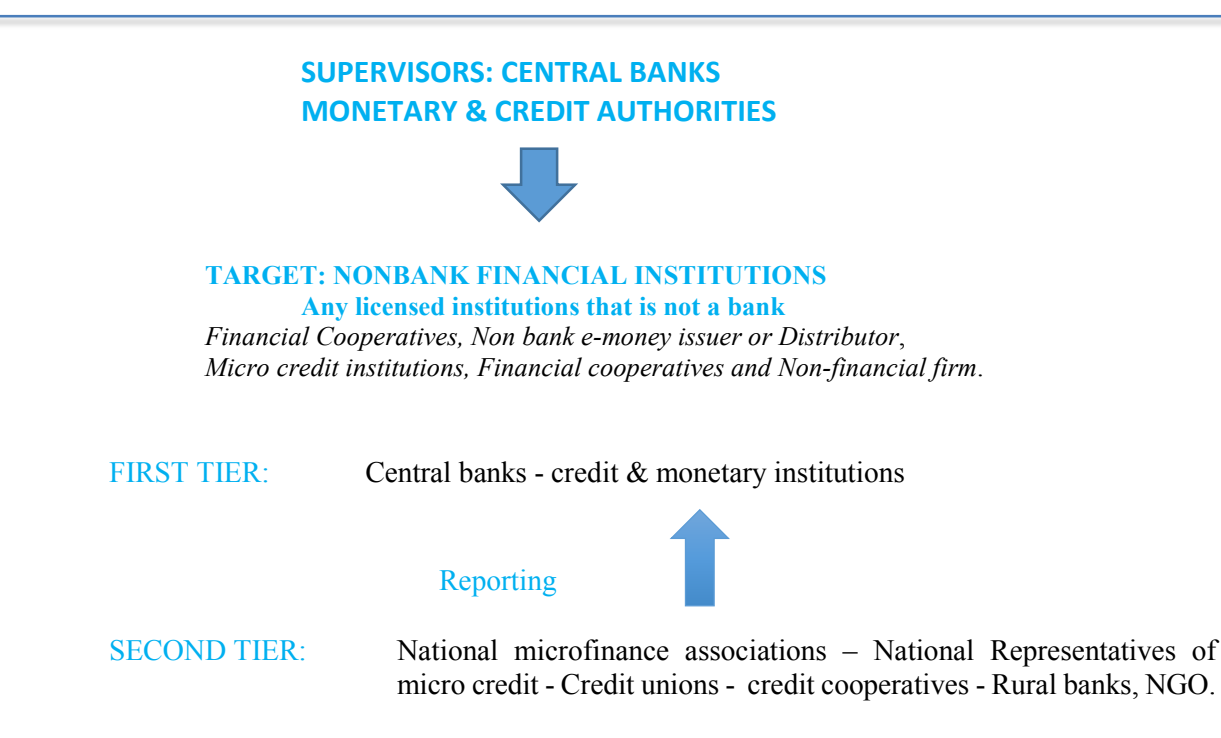
On the matter it is worthwhile to note the situations emerged in Ghana two years ago when some microfinance organisations tried to change name to escape the central bank's regulations: Cutting out unscrupulous MFI <https://www.linkedin.com/groups/4682884/4682884-240048786>. From that case we may learn how much important and difficult could be to enforce the guidance.

Besides above mentioned problems at institutional level there could be a non secondary element that has been emerging from the field and may complicate the effective Guidance 's

implementation. As reported in “The “Revolving Door” Regulatory Conundrum for (Digital) Financial Inclusion and Microfinance, <https://www.linkedin.com/pulse/governance-end-user-client-protection-revolving-door-arunachalam> in India, the responsible persons for microfinance are now in charge for financial inclusion using the same tools and management style. This doesn’t mean that “a priori” some persons should be excluded from the management, but to embark in a wide education problem, because microfinance providers are the main vehicle for financial inclusion

Regards to the implementation of the Guidance we do think that a two-tier system at national level could be a way to go. Under this suggestion we do foresee two levels of interventions: credit authorities (first tier) and representatives of related industries (second tier). The central banks shall be the first level and microfinance associations, groups of finance & non financial services providers sharing common objectives (credit unions, credit cooperatives, rural banks, NGOs, etc.) entrusted to monitor their members.

Figure – Proposed application to supervise nonbank financial institutions



Referring to the Practitioners, by and large, there is a need to campaign an educational programme on the new way to deal with financial inclusion which isn’t the microfinance approach proposed some time ago. This isn’t a job to be done by the sponsor (Bank for International Settlements) of the Guidance.

We would like to recall that beginning last year we launched a Project for MFI Decision Makers <https://www.linkedin.com/pulse/project-decisions-makers-africa-ascanio-graziosi?trk=mp-reader-card> to assist Governance bodies to take informative decisions.

Currently, these bodies perform such tasks on paper because they haven’t resources in terms of knowledge and means to carry out the mandate. This does mean that they should be provided with what they need, which could be easier than a centralized system going one by one. Under the circumstances the second level is supposed to report to the first tier.

We do think that Corporate Governance (Principle 14), should deserve more attention in terms of structure and functioning. There is a need to reorient the field activities that are still microfinance earmarked.

Owner, 2030 FINANCIAL INCLUSION
FINANCIAL SERVICES CONSULTING PRATICE