To what extent is industry self-regulation applicable to microfinance?

The case of TAMFI in Tanzania

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Starting points and research issues

Microfinance: from high hopes…to critics and debates
(Impact; rates; transparency; competition; governance, client protection; mission drift?;…)

The « traditional » regulation of microfinance
→ Two traditional regulation modes (rules/laws – competition)

Observations

Research questions

To what extent is industry self-regulation applicable to microfinance?

Is it relevant in microfinance?

Which factors to consider?
• Industry self-regulation: « collective action aiming to shape or constrain organizational behaviour through standards and rules of conduct set by an industry-level organization » (Afonso et al., 2017:923)

• Form of industry self-regulation:
  → Different combinations in different circumstances

• Main obstacles and how to (partly) face them

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**What about microfinance?**

• **Interesting to consider** (together with traditional regulation modes)?
  - MFIs mostly not subject to prudential regulation
  - Weak formal regulation/lack of data
  - Double bottom line ≠ banking regulation
  - Diversity and # of MFIs

• MFIs associations: **significant influence** on regulation but very low attention in academic papers regarding their role in the sector
Summary of the literature review – suggesting a framework

- Regulatory culture (cooperation >> separation)
- Level of maturity of the local microfinance industry
- Threat of future regulation
- Relationships with the banking sector
- Risks of future crises in the microfinance industry
- Diversity of the microfinance industry

- Internal credibility (legitimacy regarding member MFIs)
- External credibility (visibility, representativeness, comparability of self-regulation)
- Access to information (asymmetries between the association and the members, recognition as an unavoidable platform,…)

- Form (code of conduct, informal clubs, intervention in the law,…)
- Content (client protection, over-indebtedness issues,…)
- Voluntary >> compulsory membership

- Funding structure
- Membership (criteria for membership, cohesion, composition, cooperation spirit)
- Model of association (services provided)

- External support (investors, regulators,…)
- Awareness/presece of common interests
- Materialization of free riding
- Existence of sanctions
- Mimetic forces (leader MFIs)
- Normative forces (promotion of values)
- Monitoring self-regulation
The empirical research: the case of TAMFI

An inductive and qualitative approach

- Three-month fieldwork at TAMFI: Immersion in the life of the association
- Inspired from *Grounded Theory Method*

Various empirical materials

- 17 semi-structured *interviews* (±60'): TAMFI; CEOs of MFIs; Bank of Tanzania; investors; partner NGO (SBFIC); local expert
- *Observations*
- *Internal reports*
- *Public data*
- *Local financial press*

Context of microfinance in Tanzania

Regulatory landscape

Dynamics in place around TAMFI
Results: structuring the qualitative data

Field work and interviews

(Data structure – Source: the author)
Results: tensions at the organizational level

- Setting clear criteria of membership
- Size heterogeneity
- Characteristics/type of heterogeneity
- Regulatory regime heterogeneity
- Clustering of membership
- Understanding members’ needs

- Being an inclusive association
- Membership as a confidence token
- Geographical disparity gap
- Bad perception from banks

- Being donor-driven vs member-driven
- Lack of involvement
- Difference of longevity among members
- Personification of the association

Data structure part 1 – Source: the author

Tensions manifesting at the organizational level

- Heterogeneities in the membership
- Being representative while remaining a voluntary initiative
- An organizational dynamic based on the association rather than on the members
Results: Key factors at the industrial level

- Being aligned on the roles of TAMFI
- Perceiving a benefit of being member
- Sharing a “common fate”

- Low level of maturity of the industry
- Resistance to disclose information
- Low cooperation spirit in the culture

- Cooperation in the membership fees
- Not attending the meetings

- Raising awareness in the industry
- Raising awareness of mid-management

Data structure part 2 – Source: the author
Results: tensions at the level of the environment

- A low level of maturity of the industry
- A blur definition of microfinance
- Feeling the danger of being unregulated
- Difficulty to comply with future regulations

Balancing long-term formalization gains and short-term compliance difficulties

- Preserving the voluntary initiative
- Joining for awareness about regulation
- A greater access to information
- No officially recognized regulatory role
- Rushing things to regulate
- A limited co-regulation culture
- Making membership compulsory

Needing support from regulators while keeping a distance

- The eternal problem of funding
- External pressure to undertake necessary initiatives
- Understanding the priorities of the market

Aligning members and partners

Data structure part 3 – Source: the author
Discussion and conclusion

1. Code of conduct (relatively weak) + significant influence on the regulation

2. Tensions at the organizational level → free riding; lack of involvement

3. Currently no sanction

4. Internally: no unanimity among members
   Externally: potential lack of credibility (mutually reinforcing with point 3)

5. Low maturity of the industry + Potential gap between the association’s and the partners’ objectives + No official support
THANK YOU FOR YOUR ATTENTION
For the future

Potential improvements

• Some additional respondents from the regulatory bodies
• To what extent do MFIs really apply the code? → more investigations on their individual practices

Avenues for future research

• Studying other cases in other market circumstances and levels of maturity
• The level of self-regulation: Individual? Industrial? What interactions?
• Using the theories around the « commons » to discuss self-regulation?