Getting to Effective Legislation & Regulation

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Specialized legislation/ regulation from commercial banks, microfinance and other co-ops is most effective. Must be:

- Prudential
- Proportional
- Predictable
- World Bank, IMF, US, UK, Barbados, Australian credit union associations and Center for Financial Inclusion

- Reviewed laws/regs in 48 countries for co-ops

- Author of the *Model Law for Credit Unions*, law in Malawi and many amendments.

- Member of ICA Legislative Expert group
Legislation and Financial Co-op Performance

- Countries with financial co-op specific legislation have higher average financial strength & penetration.
Legislative Review of 104 Jurisdictions

- Financial co-ops in Latin America (100%), Caribbean (88%), Africa (85%) and Asia (69%) have general co-op legislation.

- N. America (100%), South Pacific (83%) and Europe (73%) have more financial cooperative specific legislation.
Unique Legislative needs of Financial Co-ops compare to:

- **Commercial Banks:**
  ◦ Capital structure, minimum start up capital, fit and proper governance standards.

- **Microfinance Institutions:**
  ◦ Savings-based, co-operative structure, not profit maximizing, deposit insurance.

- **Co-operatives:**
  ◦ Access to payment systems, deposit insurance, prudential over-site, capital requirements, central bank liquidity
Financial Co-op Legislation in Africa

Fin. Co-op Specific
- S. Africa `09
- Kenya `09
- Malawi `11
- West Africa UEMOA

Specific Chapter for CUs
- Zambia `98
- Ghana `10(?)
- Rwanda `08 /MFI
Inhibiting factors to Policy Reform:

- Political acknowledgement of the actual global impact of financial and non-financial co-ops.

- Lack of understanding/interest at key institutions: Basel Committee, IMF, G20

- Need for more cohesion among co-ops.
Potential Solutions to Inhibiting Policy Reform:

- Political acknowledgement: IYC follow on calls for improved policy environment.

- Require IMF to gather co-op data in financial access surveys.

- Continued advocacy resources by ICA and co-operatives together.
Key policy challenge with financial co-ops:

How to prudentially & actually supervise large numbers of smaller (compared to banks) financial institutions with weak governance?

a) Directly by central bank/ministry of finance
b) Delegate it to the sector
c) Only require registration via department of co-ops, but not prudential oversight
Examples of Effective Regulation of Financial Co-ops

- Much of the Caribbean: via Ministries of Finance/central banks
- Korea: Unique financial sector/sector partnership
- Rwanda, South Africa, US, Canada, Australia via central banks/specific ministries for financial coops.
Examples: India

- Large complex number of co-ops, financial and non-financial.

- State and Federal legislation.

- Largest urban co-op banks are effectively supervised by specialized unit within Reserve Bank

- Others financial co-ops have more restrictions, fewer options but less regulation
Recap:

- Financial co-ops serve 857 million people globally.

- They need prudential supervision separate from banks and other co-ops due to their size, purpose and savings orientation.

- If government/donors allocate the initial resources, then pulls out, there are long-term payoffs with stability and financial inclusion.
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