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## Breakout 1: **Regulation for Expanding Rural Financial Services**

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### *“USAID Azeri Rural Credit Project (ARC): Capitalization, Governance, Ownership, Control”*

#### **Author**

Al Harding (ACDI/VOCA)

#### **Summary and Key Findings**

This case study examines the start-up of CredAgro, a non-bank financial institution in Azerbaijan and issues related to sustainability, specifically governance, ownership and control. The proposed change in ownership and control of the institution from project staff to local staff will provide an opportunity to test the viability of this type of institution. Human resources are the key to ensuring the success and survival of a start up institution. “CredAgro has learned quickly that good people and the identification, recruitment, development and retention of good people is the key factor...particularly a financial institution dealing primarily in agriculture”(p.7).

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### *“Supervision and Regulation of Microfinance Industry in Ecuador- USAID/SALTO Project”*

#### **Authors**

Rodrigo Espinosa, Alexander Shapleigh, Fernando Fernandez, Marina Mutchler and Jorge Daly (D.A.I.)

#### **Summary and Key Findings**

The SALTO USAID Ecuador project is designed to support microfinance services and macroeconomic reforms to contribute to sustainable economic growth to poorer segments of the Ecuadorian population. The case study reviews the motivations and implementation procedures and discusses institutional and policy impediments that need to be addressed, i.e. the need for institutional reform and the ceiling on loan interest rates, respectively. Private investment in credit bureaus will facilitate the “development of a healthy market-oriented micro finance industry in Ecuador that will be able to serve both urban and rural clients” (p.6).

The cooperative sector should not be abandoned, particularly due to their importance as deposit taking institutions in rural areas. Related, the entry requirements for cooperatives into the formal sector should be re-evaluated.

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## **Breakout Session 1**

### **Notes from Question and Answer Discussion**

#### **> Remarks & Questions by Robert Vogel**

\* Regulators are very concerned about governance, ownership and control. And the paper by Al Harding points out them.

\* On Mr. Espinosa's paper, he asked (about rural finance): to regulate the activities done by micro borrowers or the micro leaders? That's an interesting question to be addressed.

\* Q: Considering regulation, what is the extent to which it could reduce the transaction costs for borrowers and leaders so both parts are interested in participating in the transaction?

#### **> Comments and questions by those attending the session**

- Regulation of small institutions implies high costs and precisely those entities contribute a small part of the superintendency expenses.
- Answer (A): Mr. Espinosa mentioned an IDB's study that concluded the superintendence could supervise around 160 cooperatives with no problem. Moreover, most part of the superintendence expenses comes from the insurance companies. So there is no problem with the cross-subsidization between banks and small financial institutions. Robert Vogel added that in the Peruvian case, the cost of supervising microfinance (non banking) institutions outweighed the fee they pay the superintendency of Banks. Besides the cross-subsidization, the "net" result is also important in terms of costs). More discussion took place about the topic...
- Credit Bureaus: Mr. Espinosa mentioned that two private credit bureaus are operating in Ecuador since 2002. The information provided by them includes credit information with financial institutions and commercial enterprises, like the Peruvian case. Ecuadorian Superintendency of Banks is very interested in promoting the investment of the private sector in credit bureaus
- The question about whether the regulation of microfinance and rural finance should be the same as that of the mainstream bank arrived.

Answer from R. Vogel: There should be some key common principles applicable to every financial institution. Try to do the regulation as uniform as possible.

- Question: To regulate only deposit-taking institutions is right? Should it be followed? What about credit unions?
- Transparency in regulation was mentioned. It's needed that at the government level as well as at the regulators and financial institutions.