

Strengthening Regulation and Supervision of Microfinance Sector for Development in Ethiopia

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Abstract : This paper analyses regulatory and supervisory issues in the Ethiopian micro finance sector, which caters to the needs of those who have been excluded from the formal financial sector. Micro-finance has received increased importance in development because of its grand goal to give credits to the poor to raise their economic and social well-being and improve the quality of lives. The micro-finance at present has been moving towards a credit-plus period through covering savings and insurance functions. It thus helps in reducing the rate of financial exclusion and social segregation, alleviating poverty and, consequently, stimulating development. The Ethiopian micro finance policy has been generally positive and developmental but major regulatory and supervisory limitations such as the absolute prohibition of NGOs to participate in micro credit functions, higher risks for depositors of micro-finance institutions, lack of credit information services with research and development, the unmet demand, and risks of market failures due to over-regulation are disappointing. Therefore, to remove the limited reach and high degree of problems typical in the informal means of financial intermediation plus to deal with the failure of formal banks to provide basic financial services to a significant portion of the country's population, more needs to be done on micro finance. Certain key regulatory and supervisory revisions hence need to be taken to strengthen the Ethiopian micro finance sector so that it can practically provide majority poor access to a range of high quality financial services that help them work their way out of poverty and the incapacity it imposes.

Keywords : micro-finance, micro-finance regulation and supervision, micro-finance institutions, financial access, social segregation, poverty alleviation, development, Ethiopia

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