Introduction

For years microfinance[1] presented itself to be a useful grassroots level tool for development by extending financial services to the bottom of the pyramid-the poor (Hudak, 2012). With such a socially promoted image, microfinance "flew under the radar" and avoided the scrutiny and the interference of regulatory agencies and the media (Bob, 2011; CSFI, 2014). With microfinance institutions (MFIs) now becoming fully-licensed banks and the microfinance industry open to private investors of all kinds, government regulatory agencies are taking greater oversight over them and are much more actively interested in what goes on in the microfinance world. This level of interest is down to the microfinance industry being connoted with a double mission: economic and social (Battilana and Dorado, 2010; D'Espallier, Hudon and Szafarz, 2013; Hulme and Maitrot, 2014; Estape-Dubreuil and Torreguitart-Mirada, 2015; Lebovics et al. 2016) making performance on both indicators essential for hybrid firms like most MFIs. Accordingly, Hartarska and Nadolnyak's (2007) question as to whether and how regulation impacts the performance of an MFI is an important one, in view of a significant number of MFIs that have transformed or considering transforming themselves from unregulated to regulated MFIs. More specifically, some practitioners and scholars now worry that regulation (especially if inappropriate) may lead to MFIs focusing more on regulatory requirements than on poverty alleviation (Hartarska and Nadolnyak, 2007; Varottil, 2013). Accordingly, the scrutiny of the effect of regulation on MFIs and social goals is of interest to our study.

There has been a growing interest in researching types of, and possibly effects of microfinance regulation worldwide (Christen and Rosenburg, 2000; Gallardo, 2002; Porteous, Collins and Abrams, 2010; Pouchous, 2012; Lauer and Staschen, 2013). Notably, to note is the concentration of studies on Latin America and South Asia, but in the last 15 years, an increasing number of studies (though still limited) have started to focus on regulation of MFIs in Africa (Basu, Blavy and Yulek, 2004; Arun and Murinde, 2010; Ndambu, 2011; Anku-Tsede, 2014; Barry and Tacneng, 2014; Makuyana, 2016). In one study, Barry and Tacneng (2014) compared regulated with unregulated MFIs in Sub-Saharan Africa and found

[1] Microfinance here is defined as the provision of financial services to potential entrepreneurs and the poor or low-income people who traditionally have been excluded from formal financial systems (Bruton, et al. 2011; Hudon and Sandberg, 2013; Lebovics, et al. 2016)

regulated MFIs to be less profitable but more self-sufficient than non-regulated MFIs. More importantly, they noted that unregulated NGO-MFIs socially performed better, accommodating poor clients more effectively. In another, Cull et al. (2011) found that MFIs that have to comply with prudent supervision respond by curtailing their outreach to clients that are costlier to serve. Others have explored the relationship between regulation and outreach in microfinance provision in Africa (Arun and Murinde, 2010). While this body of research is valuable, it however, doesn’t address itself to post-regulation experiences from both the practitioners’ and regulators’ perspective in order to examine the effects of regulation on MFIs, especially in countries where microfinance regulation is still in its infancy.

This study makes an interesting empirical contribution to our understanding of the effect of regulations and the extent to which, if inappropriate can undermine the double bottom line. Specifically, we focus on the regulatory provisions that have a bearing on the social sustainability (Lebovics et al. 2016) of microfinance with an aim to examine how these are spurring MFIs to better able provide expanded financial services to the poor. Understanding how in practice the microfinance regulation might affect MFI outreach (ability to attract borrowers/savers at the bottom of the pyramid) is important, but an under-researched issue, particularly in Africa. The study is therefore timely from a policy perspective as it throws light on unintended consequences and the tensions that arise within the sector and MFIs where regulations are found to be poorly designed. Focusing on sub-Saharan Africa is interesting because it is a region that is largely under researched and underrepresented. Furthermore, the study gives space for retrospection as it focuses on post-regulation experiences of the stakeholders (the regulators and MFI practitioners).

The key findings of the study are based on an empirical analysis of qualitative data from regulators, Apex microfinance bodies and regulated MFIs in Nigeria and Zambia. This comparative study finds that regulations in both countries have managed to professionalise and to some extent restore confidence in the sector, but their effectiveness in augmenting the centrality of social goals to microfinance and MFIs remains doubtful. We further find that, the failure of regulation to effectively push for social ideals and provide a regulatory oversight through requiring that MFIs report on social performance could be sending wrong signals to would be social investors, with implications for the social image of the industry. Microfinance industry in both countries is devoid of active participation from social institutional investors, leaving the market dominated by purely commercial MFIs with a lower appreciation for social goals. Thirdly, we find that regulation has neither speeded the emergence of sustainable MFIs (especially in Zambia) nor accelerated the sectors' outreach to the poor and the financially excluded. Related to this is the high cost of capital that is creating a strong pressure even for MFIs that would commit to social performance. Fourthly, the study further finds considerable levels of political interference aimed at protecting the poor, but also unintentionally causing enormous damage to the sector and the ultimate goal of furthering financial inclusion.

The remainder of this article is organized as follows. Section 2 discusses relevant literature on microfinance regulation, followed by research methods in section 3. A brief contextualisation of the microfinance sector in both Nigeria and Zambia is presented in section 4. We subsequently present our results, discussing their theoretical and practical implications in section 5 and the final section concludes.

2. Microfinance Regulation: A brief overview

Generally speaking, financial sector regulation aims to avoid banking crises, protect depositors, maintain payment systems and encourage competition and efficacy (Lauer and Staschen, 2013). In many countries, microfinance regulation[2] tends to fall under two forms of regulation: prudential and non-prudential (Christen and Rosenburg, 2000). Prudential regulation and most relevant for deposit taking MFIs[3]is about the safety and soundness of licensed financial institutions and their conduct of businesses, in order to prevent financial system instability and losses to small depositors (Christen et al. 2012; Porteous, Collins and Abrams, 2010; Ledgerwood, 2013). With this approach the financial authority assumes responsibility for the soundness of financial institutions. From the perspective of microfinance, regulation can serve to create confidence by professionalising the sector, open doors to multiple sources of funding, including access to public deposits, thereby expanding their banking functions. Regulation further assists in creating a healthy environment for microfinance activities and growth of the sector (Arun and Murinde, 2010; Purkayastha, Tripathy, and Das, 2014). Appropriate regulation it is argued, has the advantage of instilling a

[2] In this paper, we use "regulation" in reference to prudential regulation and supervision, not non-prudential regulation.

[3] Deposit-taking MFIs 'have the institutional structure and regulatory approval required to mobilize and intermediate deposits. They may be licensed and regulated as banks or operate under a special category for deposit-taking MFIs created by the regulatory authorities. These institutions have lower minimum capital requirements and cannot provide all the services banks can' (Ledgerwood, 2013, p. 178).

sense of financial discipline and speeding the emergence of sustainable microfinance institutions (MFIs). In addition, regulation provides MFIs with a sense of legitimacy (Hudak, 2012)-especially in view of the bad press resulting from the crises that have in recent years engulfed the sector worldwide. Therefore calls for regulating the microfinance industry have emanated from governments as well as the practitioners' own self-interest (Gallardo, 2002; Chiumya, 2010; Hudak, 2012).

Consequently, several arguments have been presented for the regulation of microfinance institutions in view of rapid growth and fast commercialisation and in particular, for those taking deposits from the public (Christen and Rosenberg, 2000; Cull et al., 2011; Pouchous, 2012). This is because with regulation, customers are likely to be protected against MFIs that resort to unethical practices and excessive lending rates in order to maximise profits (Hulme and Maitrot, 2014). Furthermore, Gohar and Batool (2015) state that customers and investors tend to trust regulated MFIs more than the unregulated, although the actual outcomes and experiences of the regulated could vary across countries.

As this study will show, scholars are increasingly interested in understanding not only the importance of regulations but much more the implications thereof. Opinions are divided when it comes to the impact of regulations, with some suggesting that depending on the context and case, these regulations can either spur or hamper the development of the sector (Arun, 2005; Arun and Murinde, 2010; Purkayastha, et al., 2014; Anku-Tsede, 2014). Haq, Hoque and Pathan (2008) also note that, care should be taken so as not to overregulate if MFIs are to improve on outreach and sustainability. Regulators therefore, face a two-pronged task; safeguarding the stability of the financial sector while simultaneously ensuring enough operational space for MFIs and other institutions to innovate and continue with the focus on the unbanked.

3. Methodology

3.1. Case study context

Nigeria and Zambia, our research sites are particularly interesting countries to study because of the different paths they have taken to commercialisation, but relatively similar when it comes to regulatory changes within the microfinance sector. As microfinance is important to the broader goal of addressing mass poverty, and particularly in enabling the poor and small business to access suitable finance, both countries have sought to use microfinance to promote the goal of financial inclusion through regulation. Secondly, both countries developed their Microfinance Regulations at similar periods and had also embarked on revisions of the regulations within a similar timeframe. For example, the microfinance regulatory framework in Nigeria was enacted in 2005 and further revised in 2011. Zambia, on the other hand began regulating MFIs in 2006 and at the time of fieldwork, the Bank of Zambia was finalising proposed amendments to the 2006 Regulations into a new Draft Microfinance Services Bill, 2014. Interesting to note however, is that in both countries calls to regulate the microfinance sector emanated from the government's desire to mainstream microfinance into the overall banking system and prevent abuses, protect consumers and create an enabling environment for MFIs to achieve significant outreach on a sustainable basis. Therefore the existing regulatory frameworks form the basis for a case study intended to examine the effect of regulation on the industry and MFIs in the two country contexts.

3.2. Data collection and analysis

This exploratory study is based on an intensive qualitative research conducted in Zambia and Nigeria in July 2015, complemented by each researcher's own local knowledge. The sample is composed of six MFIs from Zambia and three Microfinance Banks (MFBs) from Nigeria. All the surveyed MFIs are licensed with their respective Central Banks. In total, 29 semi-structured key informants in depth interviews were conducted between the two countries. This includes officials from the central banks and the apex associations in both countries and one independent local microfinance expert in each country.

We first developed preliminary interview guide questions based on the reviewed literature and pre-tested for clarity and relevance by sending them to a UK based CEO of an MFI that operates in Zambia and Malawi and later followed it up with a Skype interview. Subsequently, revisions were made based on the feedback received. To try and have information as consistent and comparable as possible, two sets of semi-structured questions were developed, one for the MFIs and the other for the regulators. The aim was to capture their experience and perceptions of microfinance regulation in their respective countries and impact thereof. To do that, a semi-structured interview schedule was used. The questions were exploratory in nature and related to questions about interviewees' perceptions of regulatory provisions and the ways in which they were impacting on delivery of social goals such as outreach. To enable comparisons, the same questions were utilised in both countries, but flexible enough to accommodate contextual features. All interviewees were proficient in

English language and so all interviews were conducted in English. To supplement interviews, secondary data was obtained from the websites of individual institutions and from Mix market (www.mixmarket.org), a non-governmental organization whose object is to promote the exchange of information on the microfinance sector around the world[4]. The MIX database provides an overall understanding about the MFIs that report on social performance, thereby highlighting the importance of social performance for the microfinance sector. The data was then transcribed and imported into NVivo and analysed across MFIs in the two countries to identify emerging and converging themes (Patton, 2002). This process involved an iterative and reflexive process (O'Dwyer, 2004) and a careful reading and re-reading of the data and once in NVivo, data was analysed through open coding and tree nodes to "pull down" (from data) key patterns and thematic areas. Although the sample may not be representative enough to draw any general conclusions, still the data provides significant insights into the effect of regulation on MFIs' performance and development of the sector in similar developing countries. In the section that follows, we offer a brief overview of microfinance in the two countries as background information before presenting the findings.

4. The microfinance landscapes of Nigeria and Zambia

The notion of microfinance in most of Africa was particularly promoted by donor driven non-profit, nongovernmental, microfinance institutions (MFIs). These NGOs required substantial subsidies to accomplish their social goals of poverty reduction and that of empowering women (Cull et al. 2009; Armenda´riz and Labie 2011; Hudon and Traca 2011). Since the late 1990s though, the microfinance movement in Africa has become more commercialized just like in continents of Latin America, South Asia and elsewhere. Most MFIs/MFBs in Zambia and Nigeria respectively, have evolved from the NGO –'charity' status to private and for profit organisations offering a full range of banking services such as savings, money transfers, payment systems and insurance. This is in line with the global trend where many MFIs have, and are changing from charities to profit –seeking businesses and adopting the status of regulated commercial financial institutions (Epstein and Yuthas, 2010; Brouwers, et al., 2014).

[4] The MIX is a nonprofit organization established in 2002 aiming to promote transparency and information exchange in the microfinance sector. Through its web-based platform, MIX Market provides performance information on MFIs, and reporting by MFIs is voluntary.

4.1 Microfinance in Nigeria

Nigeria has a total adult population of 93.5 million together with a large rural (63.9%) population (EFInA, Nigeria Survey, 2014) and yet, majority of adult population do not have access to formal financial services (King, 2012). Financial exclusion, according to EFInA, Nigeria survey, 2014, was reported at 36.9% compared to 39.7% in 2012. Against this background, the practice of microfinance has existed in Nigeria through the ages in the form of informal microfinance (Seibel, 2006). Informal groups which include self-help organisations or Rotating Savings and Credit Associations (ROSCAs), savings collectors and cooperatives societies, though popular, have had limited outreach (CBN 2005; 2012). Nigeria's microfinance banking sector is still emerging and its structure is unique relative to other sub-Sahara African countries. Regulated deposit-taking microfinance banks (MFBs) dominate the landscape (Ulrich and Hoback, 2014). Before the formalisation of the microfinance sector, financial services to the poor were mainly provided by community banks (CBs) (Nkwende, 2014; Ulrich and Hoback, 2014). These were owned and managed by community associations but unregulated. Various sources indicate that by mid-2000s, more than 1,000 CBs were in operation. However, many of them collapsed due to weak financial and managerial performance (Acha, 2012). Consequently, the Central Bank of Nigeria (CBN) intervened to pave way for transforming CBs into formal and regulated microfinance banks (Ulrich and Hoback, 2014).

To bring about this transformation, the first microfinance policy was drafted and launched by the CBN in December of 2005 and became operational in January 2008. Until December 2005, NGOs could only transform into Community Banks, but, the new microfinance policy framework of 2011 and the 2012 revised regulatory and supervisory guidelines also enabled the direct creation of Microfinance Banks to further improve access to finance for the poor and low income earners (CBN, 2012). Therefore, one of the microfinance policy thrusts has been the emergence of a large number of private-sector initiated Microfinance banks (MFBs) across Nigeria, either through converting existing community banks, transforming the existing NGO-MFIs or promoting fresh microfinance operators (Moruf, 2013). This has led to a very heterogeneous sector with about 900 licenced MFBs (private, for-profit and deposit-taking) and over 6,000 non-bank MFIs (Interview with CBN officer, July 2015).

4.2 Microfinance in Zambia

Modern microfinance in Zambia remains relatively new and access to financial services is limited and low even by regional standards (World Bank, 2014). Furthermore, Zambia has also lagged behind countries in East Africa in enacting regulatory framework for microfinance institutions (Brouwers, et al., 2014). In a country with a total population of 15.5 million and an adult population estimated at 8.1 million (CSO, 2013), outreach remains low in relation to the potential 'market'. According to FinScope data survey of 2015, 59.3% (4.8 m) adults in Zambia are financially included[5]. Against this, the Association of Microfinance Institutions of Zambia (AMIZ) and other sources (Brouwers, et al. 2014; Siwale, 2016) estimate that the industry's outreach is approximately 300,000 against potential demand of over two million people. Data from the Microfinance Information Exchange (MIX) shows that the microfinance sector in Zambia, recorded 71,978 borrowers as at December 2015 and a gross loan portfolio of USD 6.5 million. But this could be understated because not all MFI report to the MIX market.

Unlike Nigeria, Zambia does not have a specific microfinance policy (Brouwers, et al., 2014). Nevertheless, the Zambian government through the Central Bank identifies microfinance as one of the main means of extending access to financial services for the under-banked and un-banked. Consequently, in 2006 the Banking and Financial services (Microfinance) Regulations, 2006 was enacted to provide a regulatory framework through which credit only MFIs could transform into deposit-taking MFIs (BOZ, 2006; Chiumya, 2010). The Microfinance Regulations were primarily intended to bring MFIs under the regulatory sphere of the Bank of Zambia, to 'strengthen the sector and ensure accountability and transparency in operations and more importantly a smooth integration of the sector into the mainstream financial sector' (Brouwers, et al., 2014, p. 60). The transformation process saw some of the large developmental MFIs acquire deposit taking licences and as a consequence begin mobilising voluntary savings. With easy entry barriers of 2006 Act, the sector now includes several salary-based lenders with significantly higher numbers of borrowers and account for 92% of the microfinance sector's total assets (Brouwers, et al., 2014; Siwale and Ritchie, 2013). As of July 2015, there were 36 MFIs licensed by the Bank of Zambia, of which 11 are deposit taking made up of five developmental and six consumer-payroll lending MFIs

[5] Financially included – Individuals 16 years or over who have/use financial services from formal and informal financial service providers (FinScope, Zambia- 2015)

(Interview with BOZ official, July 2015). Bank of Zambia (BOZ) has revised the 2006 regulations culminating into the Draft Microfinance Services Regulations Bill, 2014, with a view to encourage more enterprise (developmental) microfinance, protect consumers and reign in consumer-payroll based microfinance activities.

5. Findings

5.1 Regulatory provisions: are they aligned with social performance/goals?

A case for regulating microfinance activities in both Nigeria and Zambia has been strongly linked to the promotion and growth of the industry for purposes of enhancing access to financial services by the majority that currently are underserved-especially in rural areas. Section 5.1 therefore deals with the design aspects of the stated regulatory provisions that relate to social goals such as, enabling outreach to the unbanked and general financial inclusion and, what stakeholders understood of them. This is an important starting point because poorly designed regulations can unintentionally undermine growth of the sector as well as MFIs' social goals. And as Pouchous (2012) notes, appropriate regulation and supervision of microfinance is critically important in bringing the poor and vulnerable communities the financial services they need.

In interviews, participants from both countries noted that regulations had succeeded in formalising and legitimizing microfinance. A Bank of Zambia official commented in reference to the success of the regulations, ; '*governance structures are in place and the sector definitely has grown as we now have 36 licensed MFIs compared to 2 to 3 entities registered before the regulations'*. Similarly, a Nigerian CBN official also noted; '*we have more than 900 MFBs registered and financial inclusion figures have gone up so that is success'*. But further scrutiny of the provisions and conversations with study participants yielded interesting findings. Firstly, the existing regulations had a lot of provisions that were taken straight from the existing Banking laws, thereby making them incongruous with delivery of social goals and inadequate in significantly enabling further outreach to rural areas as intended. This was more of an issue in Zambia than Nigeria. Compared to Nigeria, Zambia never had a microfinance national policy prior to regulating the industry. Therefore, it could be argued, regulators in Zambia were more guided by their knowledge of the banking sector rather than the peculiarities of microfinance activities. One MFI practitioner was succinct in noting the regulator's limited understanding of microfinance. They stated that, *'the existing microfinance regulations are largely based on the 'copy and paste' of the commercial banking act'.* While another noted:

> 'To start with the Bank of Zambia has no clue on what they are governing and neither does the government. There is a lack of appreciation on their part for the different environments faced by NDT and DT and that between MFIs serving the urban with those dedicated to serving rural areas like ourselves'.

The Association of Microfinance Institutions in Zambia (AMIZ) was also of the view that;

> 'The 2006 Act had ambiguity with it in the sense that traditional MFIs were not differentiated from consumer lenders. The market is now flooded with these lenders as it's easier to set up such MFIs compared to development enterprise MFIs. So we have ended up with more payday lenders or payroll-based lenders that have little to do with the poor, rural outreach and enterprise lending' (AMIZ).

And in an interview conversation, an official with Bank of Zambia acknowledged that;

> 'If you look at the 2006 regulations, they are actually regulations drawn from the banking and financial services Act. So what we have decided to do in the 2014 bill is that we are now talking about the Microfinance services bill. So we now have a stand-alone bill that will mainly be focusing on microfinance because the current banking Act has provisions that are not best suited for the microfinance sector' (BOZ official)

Most practitioners in Zambia thought the 2006 Act was not fitting with the essence of microfinance. Applying the banking regulatory framework to MFIs failed to take into account the peculiar nature of the clientele served, and that in practice MFIs differ from commercial banks in significant ways. Specifically, surveyed Zambian MFIs singled out among many other things, the demands of complying with 'know your client' (KYC) condition, where MFIs are expected to use similar client appraisals as those used by commercial banks, as working against financial inclusion. The quote below is representative of the sector's main players.

> 'I can give you an example; some regulatory measures require that MFIs use the same process of identifying customers just like commercial banks do. For example, we are expected to diligently carry out the 'know your customer' (KYC) and yet most of our customers don't have formal traceable addresses apart from them having a national identity card (NRC). I also find the KYC standard restrictive to financial inclusion as a stated objective of BOZ because it makes it difficult to assess the

marginalised in the market and ultimately negatively impacts on outreach'. (DT MFI 1 Senior official, Zambia)

Interesting to note is that, these KYC requirements have in some countries been found to present obstacles to financial inclusion especially for the poor. Consequently, Alexandre, et al. 2011) suggest a phased approach rather than putting the full KYC barrier up-front for poor customers who are new to banking. According to them the policy objective should be to permit immediate account opening with minimal barriers for poor people, with a progressive tightening of KYC as their usage of financial services grows. Other scholars have gone further to note that, prudential regulations should not just be taken from the commercial banking sector and applied to microfinance without much scrutiny as they may force MFIs to incline towards larger loans to high income clients (Bob, 2011). Although having a microfinance policy and rules do help with financial soundness and accountability of MFIs, they may not necessarily lead to increased outreach to the marginalised especially in rural areas (Brouwers et al., 2014). A case in point here is Nigeria, where outreach to marginalised is still limited even though the 2005 regulatory framework had recognised the peculiarities of microfinance practice and based on that put in place appropriate regulation for the sector (CBN, 2005). For Zambia, it could be argued that the initial lack of understanding of MFI business by the regulators/supervisors could also be the main reason for the poor regulations as the regulators were responsible for the drafting of the microfinance regulations. Microfinance accordingly warrants a unique regulatory framework, which regulators in Zambia have now realised and followed that up with appropriate revisions reflected in the 2014 Microfinance service bill.

When asked about how regulations were ensuring delivery of social goals, regulators in both countries remarked:

'In terms of social performance measurement, that is one area that we have not really been focusing on. But obviously the MFIs themselves report on their social goals in terms of depth and breadth of outreach or rural presence, and from our side we focus more on financial performance and not social goals'. (Bank of Zambia official)

'The CBN usually checks that 80% of MFB loans are micro loans. MFBs do not render any social performance reports as such, but there are provisions on the reporting template which indicate their loan portfolio being mostly micro credit'. (Central Bank of Nigeria official)

In practice, some practitioners thought differently.

> 'My view is that social responsibility is not integrated in the current regulations and nobody from the regulators' side probably understands what it means at root or wants to pursue this goal' (MFI CEO, , Zambia).

From the foregoing and the greater context of regulations considered, we find that accountability for social goals and that of responsible lending is in danger of being compromised, unless a deliberate policy or incentive is put in place to encourage the practice. Discussions with MFB senior managers in Nigerian for instance, gave the impression that though CBN sees the importance of social delivery, they nevertheless require no formal reporting and there are no clear sanctions for breaching these provisions. Both CBN and BOZ were found to be inert at pushing for social performance but relatively alert to financial expectations of MFIs/MFBs. These findings resonate with Varottil (2013), who makes an interesting point with regards social impact assessments; 'that they are generally outside of financial regulation and might not be a priority for governments as it is for development agencies, NGOs and social funders' (p 174). Thus with respect to current regulatory provisions in both Nigeria and Zambia, accounting for social performance is clearly not a priority, leaving open space for MFIs to determine how much of social can be accounted for and integrated in their corporate strategy.

5.2 Perceptions and Meanings of Social Goals

Regulation has ushered in a new identity and ownership structure for transformed MFIs. For example, those that operated as NGOs are now private limited companied by shares, giving them space to figure out what matters to them and their shareholders. This transformation is inevitably recasting the original ideals of microfinance and their import to MFIs' sustainability and delivery of social goals. However, regulating microfinance has drawn varied responses from the wider community and also fraught with tensions given the double bottom line of microfinance and hybrid nature of most MFIs. Based on interviews with MFI practitioners, we were of the view that perceptions of the original espoused stance of microfinance were coming under threat because regulations were more aligned with the 'market' rather than the 'development' logics (Khavul, et al., 2013). Almost all participating MFIs from Zambia shared the view that, having transformed from donor funded NGO MFIs to private companies by shares, their perception of the social side of microfinance was quickly changing. They partly attributed this to pressure from shareholders to make profit, declare dividends as well at the regulators' sole focus on financial sector stability and institutional financial sustainability. Increasingly, the notion of delivery of social goals is becoming synonymous with informality and NGO status, while private, regulated and commercialised MFIs are largely being equated with financial performance and profit making. In reinforcing this contrast one senior manager whose institution had undergone transformation noted thus:

> 'Being a limited company by shares means that sustainability of the organisation becomes the main focus and in contrast, under the NGO status-social mission is paramount' (Senior Manager –DT MFI-Zambia)

In conversations with MFI managers, it became clear that regulations had not only succeeded in changing their legal status, but was also actively shifting and challenging the interpretation of social goals. In effect, regulations were found to be pushing MFIs to operate like as well as embrace the commercial bank business model, and by implication, leaving the pursuit of social goals as an option. For instance, in Nigeria regulations required all regulated institutions to be registered as 'Microfinance Banks'. Names carry meanings and do assist in constructing identities, which in turn influence behaviour. Consequently, it can be argued that, with that name tag, social objectives may no longer be central to MFBs as they now perceive themselves to be 'banks' just like any other commercial bank. Such a perception and belief in turn could prioritise hiring managers with strong backgrounds in banking, but devoid of knowledge of the nature of microfinance and its development logic. In reference to the Central Bank of Nigeria's use of 'microfinance banks', one Nigerian informant commented:

> 'I do not blame the MFBs for operating as commercial banks in disguise. The CBN calls them 'banks' and banks are profit making entities and don't bother with the poor. They adopt similar policies as commercial banks and just change their names'.

It is not surprising therefore that a senior manager for one of the MFBs was of the view that social goals were no longer top on the list for most MFBs. This is because many Nigerian MFBs (especially the Greenfield MFBs) have a mentality of making quick money with minimal risks, a trend that some feared, could mean that developmental objectives may not be achieved through the microfinance sector. However, this mind-set and perception need to be placed in the right context. Most of the present MFBs in Nigeria used to be community banks, and with the help of regulations, transformed into for- profit organisations, with some owned by rich individuals whose aim is a quick return on their investment and not necessarily the wellbeing of the poor. An official from CBN explained:

> 'The boards of these MFBs have little or no knowledge about how microfinance works. Sometimes, the board members are the people who have raised the capital for the MFB and they may just be rich people who have no specific knowledge of microfinance and what it entails. They ventured into microfinance as a means of making quick money for themselves'.

Indications here are that, regulations have to a great extent created an open space where motivations of investors entering microfinance may not necessarily be aligned with its espoused mission. And when asked about whether they thought it was important to report on their social performance and in particular to the Microfinance Information exchange (MIX) website; varying views emerged suggesting importance of founders and type of funders in shaping perceptions and directing commitment to social goals.

> 'We report to MIX because we believe they provide data to support benchmarking for the microfinance industry and also because our organisation is socially focussed so we do our social reporting. I think it would reflect badly on us if we did not report. We see it as a requirement as we want to be transparent in what we do. Also, our founder and funders require us to do it, because that identifies with what we are'. (Social performance manager, NDT-MFI, Zambia)

As the quote above suggests, such MFIs are compelled to do and report on social goals by their founders and funders and not because regulators are pushing for it. Inevitably, managers of such socially focussed MFIs felt let down by the failure of regulations to make reporting on social performance mandatory. One senior manager noted:

> 'There is no formal reporting to CBN on social goals delivery. It would be great to have such reports. It will help create and increase awareness of the core goals and objectives of microfinance. We are trying our best to focus on micro lending and on women particularly'. (MD for MFB -Nigeria)

Although managers representing majority of MFBs or MFIs seemed indifferent, a small number of respondents expressed concern that regulations didn't obligate them to report on social performance as they did on financials. It is argued in literature by supporters of 'doing good' for clients, that having a social performance committee for example, helps an MFI balance financial and social performance, and better integrate social objectives into their overall governance and management strategy (Lapenu, et al. 2009). We argue that, microfinance regulations in the two countries need to take lead on this and provide clear guidelines and demand compliance as they have done for financial performance if the new ownership forms of MFIs are to keep the microfinance social ethos going.

It was also clear from interviews conducted that most MFI practitioners even though, operating by the rule couldn't clearly articulate their social goals or indicate the parameters against which they are measured. MFIs used terms like 'group lending methodology' as signifying reaching to those considered poor. Others used geographical space- 'rural' and lending to rural farmers, while others referred to loan sizes, lending to women and to simply extending financial services to the unbanked as signifying social goals. Regulators were no exception. Interestingly, there are also no agreed or universally accepted indicators of what constitutes social goals. The Social Performance Task Force (SPTF)[6] for instance, has provided a core set of indictors for MFIs to achieve their social objectives, but this is widely contested as some argue, these should be contextual to reflect level of development and type of legal status of institutions providing microfinance services. Therefore, it is evident from the discussion in the foregoing two sections that regulations have professionalised and to some extent restored confidence in the sector, but whether they are effective in augmenting the centrality of social goals to microfinance and MFIs, remains doubtful.

5.3 Source and Cost of Funds

Regulating microfinance has brought with it change in legal status, ownership, and also opened new sources of funding. Prior to regulations and while most MFIs operated as NGOs, considerable funding came primarily from government subsidies and donor grants that allowed MFIs to multiply and grow quickly (Fehr and Hishigsuren, 2006; Siwale and Ritchie, 2013). The new legal status of most MFIs precludes them from accessing such funds. As privately owned MFIs, they are expected to access and compete for commercial funds at market rates just like any other business firm. In addition regulations have allowed MFIs that meet the set minimum capital requirements to take public deposits. Mobilisation of public deposits is regarded as an inexpensive source of funding relative to commercial loans (Louis et al. 2013). There is therefore an expectation by the shareholders that MFIs will be

[6] Interestingly, the Universal standards for social performance management themselves do not dictate the social mission or specific social goals each MFI should pursue, but define "double bottom-line institutions" as those with social goals that in some way serve the broad purpose of increasing financial inclusion and creating benefits for clients.

generating profits to finance further growth, and in some cases succeed in attracting foreign private investors.

MFI practitioners in both countries noted that, there was a strong relationship between the source and cost of funds, interest rate charged, and client targeting. From their perspective, the source (mainly debt capital) and cost of funds amounted to relegating social goals and prioritising financial performance. It became clear that as MFIs became prudentially regulated like banks, and moved upstream to access funds from commercial markets, financial performance and institutional sustainability have become the dominant narratives as one senior manager explained:

> ‘But there is no way we can do social if our funds are obtained from commercial markets. Commercial investors want higher returns and would want their money directed to less risky segments like small and medium enterprises (SMEs). So which SMEs do you target? Is it those in the rural or urban?’ (CEO- DT MFI, Zambia)

Some managers (in minority) of MFIs with strong social missions, noted that, sustainable commitment to doing social might still require help either from regulators or outside grants. This perceived tension between cost of funds and social goals was a reoccurring theme in both countries as reflected in the quotes below.

> ‘We are not getting any help as an industry from BOZ in sourcing cheaper funding. We don’t believe they have done enough to support us in this area’. (CFO-DT MFI 3- Zambia)

> ‘The cost of funds is a big issue for MFBs. If the CBN can intervene as regards access to and cost of funds, then they might earn the right to dictate which clients to lend to and regulate the rates at which the funds are disbursed’. (MFB official, Nigeria)

There was a strong impression from conversations held that commitment to social goals is going to be a huge challenge if funds are obtained purely from commercial markets. The policy implication here is that, external intervention and incentives of some kind would be required to make the poverty agenda attractive to private MFIs. These perceptions are supported by D’Espalier, et al. (2013) and Cull et al. (2011) who in their separate studies found that MFIs that rely on non-commercial sources of funding were more inclined to do well on social performance but with significantly reduced profitability. Interesting to note however, was the limited reference made to public deposits as a cheaper source of growing their loan portfolio. We had expected public savings to significantly reduce reliance on debt capital, but most managers regrettably noted that deposits though cheap, were negligible as a source of funding because most of their clients are net borrowers and short term savers.

The challenge of delivering on social goals against high cost of borrowed funds was more pronounced in Zambia than Nigeria. This does not imply commercial funds were any cheaper in Nigeria, but it's because the institutional environments differed. MFIs in Zambia at the time operated under caps on lending rates, which made it even harder for them to compete and access local funds in the face of plummeting revenues. In addition, some MFIs revealed that they were unable to attract foreign investors because they disliked the direct intervention approach by the government. Many MFIs with an NGO background nevertheless worried that, the prevailing regulatory environment had significantly influenced their decision to scale up by curtailing their outreach to those clients that were costlier to serve. One manager reflected thus.

> 'We think that the regulations have made it unattractive to reach the financially excluded, particularly in rural areas. This is because the money we raise from the commercial market is costly and so for us to be able to service these loans we have to scale up! And that means, unfortunately not doing well as far as social impact is concerned'. (DT MFI 4, Zambia)

As Earne and Sherk (2013) argue, funding is crucial in improving financial access because it ensures that MFIs have the resources needed to further outreach especially to under-served areas as well fund product diversification. However, implications for policy here remain contextual as it is not certain that with cheaper funding, these MFIs/MFBs in the countries considered would do differently since current regulations are not prescriptive when it comes to social performance.

5.4 Political interference and Social goals

Considering that one of the objectives of regulating the sector was to protect the small depositors and encourage responsible lending, it was not surprising that political interference came up as contentious issue. We first focus on Zambia and consider the reasons and implications of direct intervention through interest rate caps. As noted by Dowla (2015) and Barry and Tacneng (2014), political interference can come in different forms, with the most visible and direct being when government responds by introducing laws that cap the interest rates that MFIs can charge. Following the 2006 Act, the Zambian microfinance sector recorded rapid growth on entry of consumer loan companies. These companies were also classified as MFIs even though they didn't engage in enterprise lending like the 'typical'

MFIs that deal with microenterprise financing (see section 5.1). These consumer/salary-based MFIs targeted people in the formal sector and mainly the middle-lower paid civil servants, but problems began when the local media started reporting on client abuse through exploitative pricing and over-indebtedness. Bad press drew attention from politicians and in 2013, BOZ moved in and capped interest rates to protect the poor.

According to the Central Bank, MFIs were charging unjustified high interest rates to their clients despite having many players in the market. BOZ and the government interpreted this as a clear case of market failure. The Association of Microfinance Institutions in Zambia was also of the view that the excessive interest rates didn't reflect the social mission which microfinance was known for. Interest rates as high as 200 percent were being charged, particularly so, by the pay day lender MFIs. But further interviews with the regulator revealed that some of the larger enterprise lending and deposit taking MFIs had also been charging as much as 104% as annual effective interest rate. As such, Hickel (2015) notes that, allowing interest rates to reach such levels would be endorsing microfinance as a socially acceptable mechanism for extracting wealth and resources from the poor.

These excessive interest rates called into question the social ethos and development logic they (enterprise MFIs) initially espoused. The possible implication that microfinance was in this case shifting from social entrepreneurs trying to solve the problem of poverty, to greedy moneylenders had placed the social reputation of the microfinance sector in question (Chen, et al. 2010; CSFI, 2011, CSFI, 2014). It can therefore be argued that in the case of Zambia, the government had an obligation to protect clients from what was evidently loan –sharking and initially capped lending rates at 42% (BOZ, interview communication, July 2015). This view was supported by a local microfinance consultant who though not fully endorsing caps noted; '*So what the capping did was to throw light on the plight of social goals- so the poor person can access cheaper loans. But, why was the situation allowed to get out of control in the first place?*'. Still, some practitioners argued that the price cap was politically motivated without consideration to the resulting unintended consequences such as immediate loss of income, *failing* MFIs, limited lending and further neglect of the poor and micro enterprises. To survive, 'typical' MFIs revealed that because their business model is labour intensive and they served riskier clients compared to pay day lenders, they have had to "scale up" their services, and target more profitable borrowers instead. Other MFIs revealed that they responded by scaling down on group lending methodology in preference for individual lending, and also started offering salary backed loans to improve their liquidity.

Although, the interest cap was eventually removed in November 2015, practitioners and regulators both acknowledged that the capping lending rates was damaging. Instead of reducing cost of borrowing for clients, encourage further outreach to rural areas, and protect the poor; the caps succeeded in hampering growth of the sector in many ways. Some big MFIs closed down, while others struggled to even attract additional capital from shareholders or commercial banks for purposes of growing their loan books. Indeed, these events add to the views of other scholars who note that, the imposition of interest rate caps interferes with the operation of a free market and ultimately jeopardizes financial inclusion services to the poor (Christen et al., 2003; Dowla, 2015; Helms and Reille, 2004; Pouchous, 2012).

The Nigerian experience however, differed from that of Zambia. The Nigerian government in their quest to push financial inclusion set up a Microfinance development fund in 2014 to provide wholesale funds to participating institutions. The aim was to direct lending to financially excluded groups like women and the youth as well provide a cheaper source of funding for MFBs. However, some practitioners revealed that the fund was inadequate, heavily politicised and not all MFBs could access the funds because of the conditions attached. One CEO explained:

> 'The development fund is a lot of noise making by government. They finally arranged it as a result of pressure from international organisations. They gave so many conditions such as; MFBs had to provide a list of clients who then would be verified by CBN. Then MFBs had to deposit 50% of their cash funds as collateral, then 60% of funds accessed had to be lent to women and also capped lending rates at 9% maximum'. (CEO, MFB)

In contrast, one of the MFBs that had managed to access the fund was more constructive of the fund but still offered some reservations:

> 'The Microfinance Development Fund is a welcome development for us. The key issue is that the government is taking into consideration the fact that a particular gender has been excluded. So, 60% of the fund is to go to women and that is good. CBN should not however, have mandated us to put down cash collateral to access the fund. We are hoping they would change this policy. These conditions are counter-productive and a lot of MFBs are not accessing the fund'. (Head of Micro-lending)

Thus in both cases the direct intervention could be seen to be for the public good, but was heavily politicised and fell short of its social intensions –to increase financial inclusion of the poor. In the case of Nigeria, the development funds came with onerous conditions for any

MFI seeking cheaper funding and CBN did not have the capacity to ensure that 60% of funds went to women. And in Zambia, the government was too direct with price caps on all financial institutions and even went further to set up its own MFI, with a lending rate of 5 percent!. Similar incidences of political interference have happened in countries like India and Nicaragua (Dowla, 2015) with less than positive outcomes for the sector. Accordingly, Hudak (2012) rightly observes that independence of the financial industry from political influence contributes to building a favourable environment for the development of the microfinance industry, and we would add; regulations however, need to be appropriate and enforceable.

Concluding remarks

The study has highlighted that regulation of microfinance in Nigeria and Zambia, like in many other developing countries could have unintended consequences for the social mission. It has also gone further to argue that, conversations about regulations should engage with a local context based examination of the microfinance sector as a 'one size fits all' approach to regulating MFIs is less likely to sustainably grow the outreach numbers, especially to the already financially excluded poor. Governments working through their central banks as regulators believe that regulating the sector will lead to the emergence of stable sustainable MFIs; however, this outcome is not given where regulations fail to address specificities of the local environment. Inappropriate regulations as demonstrated here can contribute to tensions between offering support to further outreach to the unbanked and institutional survival. But sensible regulation need not be at odds with 'to do good'- for the client (Battilana and Lee, 2014) and a thriving microfinance industry (The Economist, 2010). Consequently, how best to regulate microfinance is still a contested terrain (Khavul, et al., 2013; Trujillo-Tejada, et al. 2015). This study has therefore shown that, regulation is not a magic wand for financial performance either, later alone social delivery. Although regulations do play a vital role in the development of the microfinance sector (Arun and Murinde, 2010), to work, they have to be appropriate and free from unwarranted political interference. In addition regulators must have an in-depth understanding of microfinance in practice and the resource capacity to monitor and enforce.

The rapidly commercialising microfinance environment from a non-profit orientation to a more formal, profit-oriented business-like has been challenging for many MFIs (Ly, 2012; Reichert, 2016). As MFIs attain a new legal status, and regulations push them towards a banking-like identity, the discourse on social goals risk being consigned to the margins. This identity change is rapidly taking root in Africa and in some countries; the change has out-paced the evolvement of appropriate regulation to ensure stability and growth as MFIs are left think about the practicalities of performing on social goals. The position of the study is that, although commercialization and the regulatory framework have offered MFIs the possibility to transform, mobilise public deposits and widen their product range (Hartarska, et al. (2013), the social ethos of microfinance that in practice has long differentiated MFIs from commercial banks, is at risk as regulators and MFI practitioners overly prioritise financial performance. The danger all MFIs may have to confront is the degree to which they engage with social impact under the banking/market logics. More specifically, regulations have not only influenced the type of investors being attracted, they also have altered sources of funding for MFIs. Transformed MFIs no longer have access to 'cheap' donor money. Instead, they have to either rely on shareholders' capital and/or commercial loans which can be very expensive in the most developing countries. For instance, most MFBs in Nigeria are owned by the rich, who are in microfinance to make quick easy money. This motivation in itself can place the challenge of meeting social goals at risk and begs the question: what are the chances that social front issues of microfinance will feature at an institution's governance level? Findings of our study have shown that except for MFBs or MFIs with social investors/funders, the rest did not even have a committee to monitor or champion social performance management. This has serious implications for places where, as a result of regulations MFIs fail to both attract grants or social investors. In such instances, regulations may not be enough to compel MFIs to delivery on social goals and clearly these were the perceptions shared in the countries under study.

A related aspect of microfinance that calls for further consideration is that, in addition to failure by regulations to give equal priority to social performance, microfinance institutions in Nigeria and Zambia and other similar environments need to rethink how they can further outreach and service their clients more cheaply. Cost of operation was a recurring concern, suggesting that failure to cut costs might leave microfinance with limited capacity for poverty reduction because the current model is expensive and needs transformation. Technology is an option as several MFIs surveyed are turning to agency and mobile banking to cut down costs and reach remote rural areas. In Nigeria and Zambia, as in many other African countries, ICT is changing how the unbanked are reached and that requires flexibility and adaptability on the part of regulators and the regulatory framework.

Similar to other studies, this paper has limitations, which raise avenues for future research. The study only looked at Nigeria and Zambia, and a limited number of institutions, but the findings of this study are a valuable starting point in the on-going conversation about microfinance regulation and the extent to which interested stakeholders can engage with local conditions and emerging tensions to preserve the microfinance development logic in the design of the regulatory framework. We also acknowledge the difficult to conclusively state the effect of regulation and delivery of social goals given the different organisational types. However, there is scope for extending this study further. Central to microfinance is the alleviation of poverty as a social goal with microfinance clients as important stakeholders. The study focussed on regulators and MFI practitioners, future research could push the boundaries and incorporate clients' perspective of regulations. Further research is necessary especially in the case of Zambia as the findings could have largely been influenced by the prevailing caps on interest rates. In addition, a comparative study involving countries from East Africa, such as Uganda, Kenya and Tanzania, with more experience of regulating microfinance would provide useful learning points for policy makers and MFIs in sub-Saharan Africa.

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