

**WEBINAR ON PRICING
TRANSPARENCY FROM THE
INVESTOR PERSPECTIVE**

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Does pricing transparency matter ?

A DFI's perspective

« Of course ». But why ?

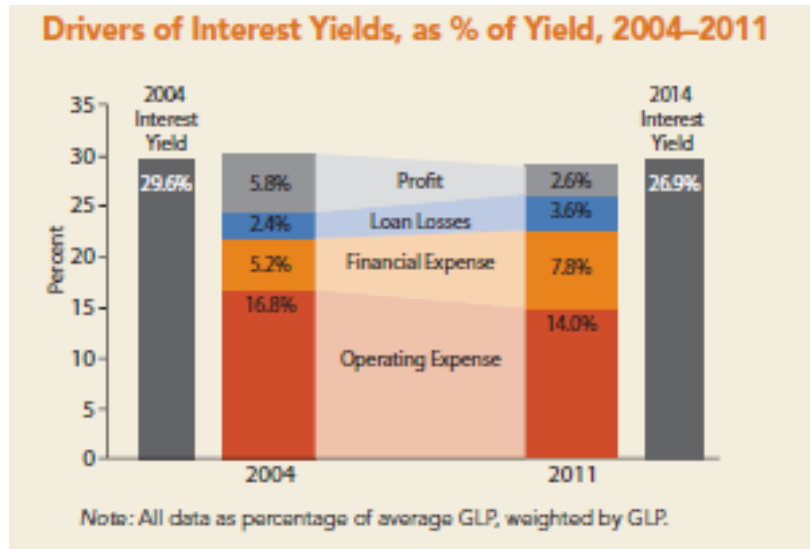
- Transparency has tremendously helped the development of microfinance as an industry
- Microfinance is also at the forefront of the *Impact Investing* sector in terms of elaborating social impact measuring tools
- And yet, interest rates are a key criteria to judge microfinance as a social endeavor
 - Not forgetting :
 - (Micro)finance is a zero sum game between clients and MFIs;
 - «Every penny of profit the MFI makes comes from the pockets of clients at the BoP»;
- At a time when much doubt is cast about the true impact of microfinance, how can we not ask about the level of pricing charged to clients?
 - Would the results of RCT studies have been different, if interest had been rates lower ?

Does pricing transparency matter ?

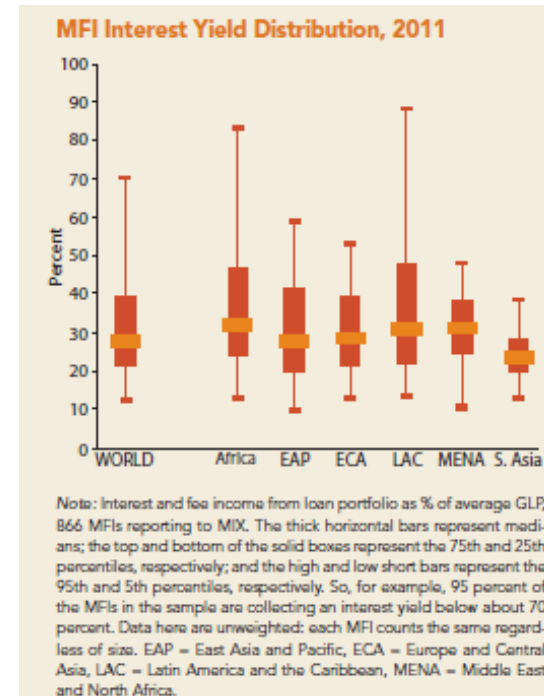
A DFI's perspective

Are interest rates actually decreasing ?

Interest yield dropped by 2.7 percentage points over the period 2004-2011



Wide variations in microcredit rates across regions



Does pricing transparency matter ?

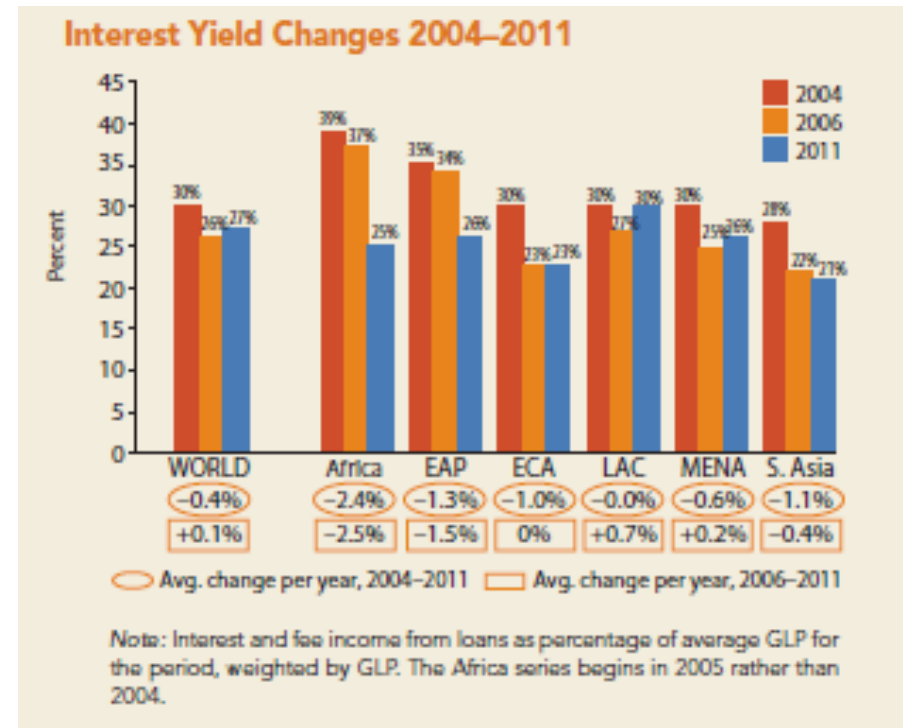
A DFI's perspective

Are interest rates actually decreasing ?

Drop in average global microcredit rates through 2007, but not thereafter



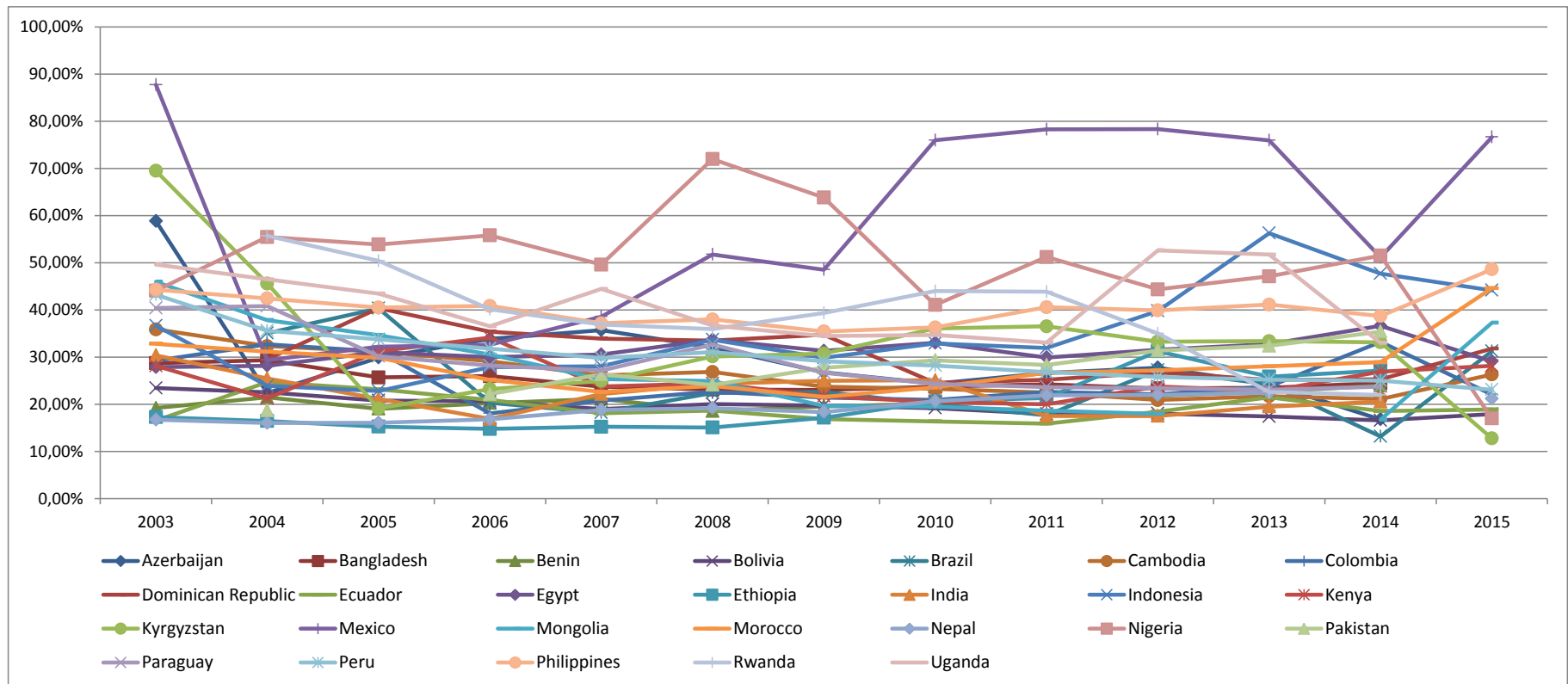
Per regions



Source: CGAP – Rosenberg & al, June 2013.

More recent figures ?

Average portfolio yield (for lack of a better benchmark...)
for largest MF countries



Source: MIX Market

Asking MFIs to be transparent

- **Transparency that Proparco asks from our MFI clients**
 - Reporting information to the Mix
 - Endorsing the Smart Campaign
 - Going for the certification for the larger MFIs (show the example when you're robust enough)
- **Tricky situation for MFIs**
 - Publishing APRs when no one does → Risk (competitive disadvantage + reputational risk) outweigh incentives to publish data (ethical standards and benchmarks)
 - How relevant is APR vs monthly flat rate for someone financially illiterate ?
- **Some thinking about collective actions for DFIs and MIVs**
 - Engaging individually (collectively ?) with MFI clients that use high cash collaterals and indexed loans !
 - No true financial transparency without financial literacy programs → pooling efforts ?
 - Collective action towards the regulator and/or the national professional association to help MFIs move collectively

Being transparent with MFIs

- **On debt = “the easy part”**
 - In our Lol/TS we communicate :
 - the interest rate if in hard currency,
 - the indicative interest rate if in local currency (known prior to disbursement),
 - our margin,
 - all fees (upfront, commitment, penalty, monitoring)
 - **The EIR is communicated clearly in the loan agreement** (mandatory as per French regulation).
- **On Equity:**
 - For each equity investment we set an IRR target bracket internally.
 - We endeavor to set reasonable IRR brackets in order to balance social and financial objectives.
 - Through yearly budget discussions and quarterly/monthly reviews, efficiency, pricing and profitability are being discussed

Being transparent with MIVs and « asset owners »

- **On debt:**
 - **Do we publish returns on our debt portfolio?**
 - Debt pricing -> the crowding out critic
 - **« How much do you charge ? » is a relevant question. But maybe even more would be where and to whom do we lend?**
 - Not reinforcing concentration effects
 - **Ideas for more transparency:**
 - Submitting anonymized data, in a way that respects everyone's confidentiality agreements
 - Per regions, per country and per MFI type (Tier1/2/3, greenfields, regulated/unregulated, NGO vs for profit)
 - Making the distinction between Donors / DFIs / Publicly funded MIVs / Publicly and privately funded MIVs / Privately funded MIVs

Being transparent with MIVs and « asset owners »

- On Equity (1/2) = « the difficult part »
 - Proparco has 3 different baskets with each time a different risk/return/impact triptych or “appetite”
 - Proparco’s own balance sheet
 - FISEA – Equity fund focused on Sub-saharian Africa
 - FISEA Social Business – FoF that can invest in “impact first” MIVs in Africa
 - How are return expectations set for our equity investments?
 - Internal benchmarks and “benchmarking” with others...
 - ... **but we recognize we are lacking proper information/benchmarks**
 - By having discussions with our “asset owners” (private shareholders, AFD / Finance Ministry / Ministry of Foreign Affairs) about their return expectations
 - Our view on trade-offs in microfinance :
 - Of course, **social performance and financial performance can be synergistic**
 - **But nevertheless, trade-offs do occur**
 - All things being equal, interest rates paid by clients and profits / returns to investors are linked
- There is a financial chain whereby Profit/IRR expectations translate into microfinance business models that then translate into interest rates charged to clients

Being transparent with MIVs and « asset owners »

- **On Equity (2/2):**
 - Having undifferentiated Equity IRR expectations per regions, per MFI size or position in their life cycle doesn't seem to be realistic nor a good idea
 - Risk of further concentration effects → “Chasing the same deals”
 - **Actions to consider :**
 - **Undertake a study on realized IRR by equity funds per vintages - probably in the form of the Cambridge Associates/GIIN study**
 - So as to “educate” asset owners
 - + ***but* bring the other part of the story : the outcome story of microfinance and make clear that not all investments propose the same risk/return/impact triptych**
 - Suggestion #1: Submit anonymized data (or data that is anonymized after proper verifications have been done), in a way that respects everyone's confidentiality agreements.
 - Suggestion #2: The more granularity the better (per regions, MFI types, life cycles, size, vintages, etc.)