

# Pricing transparency in microfinance

Emmanuelle Javoy, September 2015

What did we learn from MFT's  
experience?

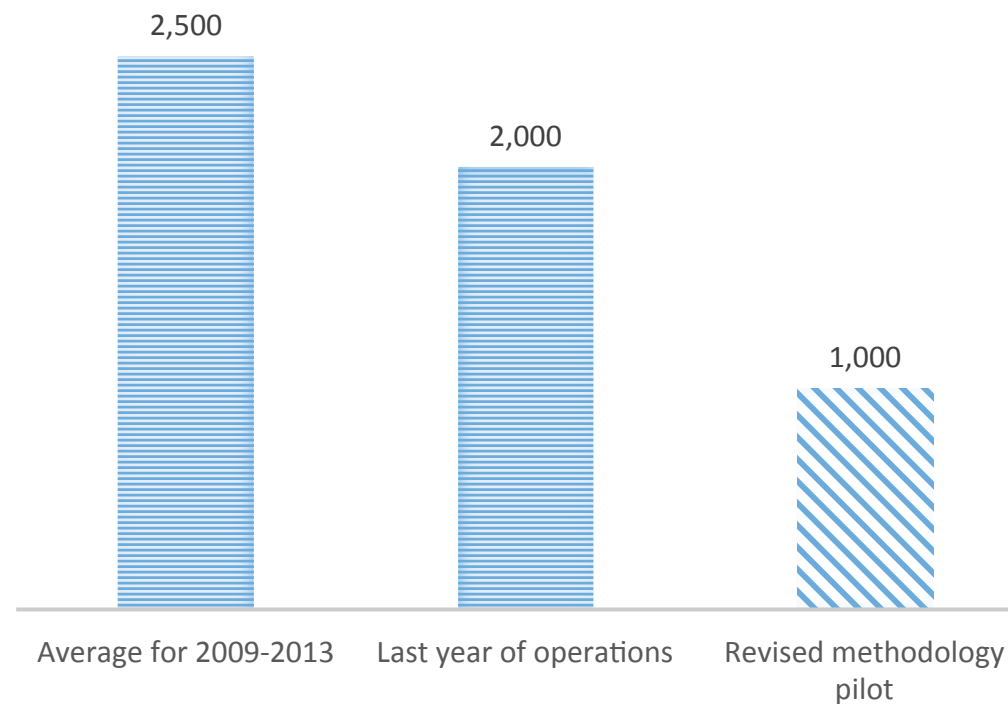
# Collecting pricing data was tedious and costly, even if cost decreased over time

¾ of time spent on convincing MFIs to report, rather than on actual processing and verification of data.

Tried different data collection partners

- MFT's dedicated staff
- Microfinance Rating Agency staff
- Microfinance National Association
- MFI holding
- MF Investors

DIRECT COST PER MFI

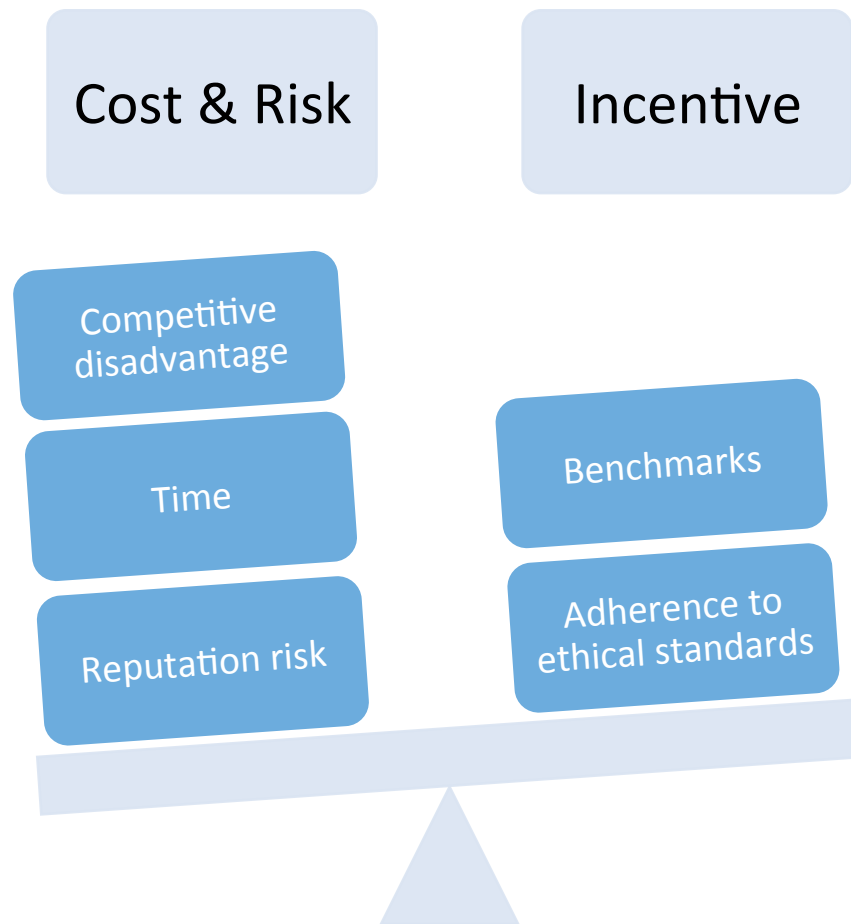


# (Good) Regulation helps

MFT's task has been a lot simpler and faster in countries where pricing data publication required by the MF regulator (Bosnia and Cambodia).

Countries with pricing regulation that include a price cap however do NOT translate in easier data collection for MFT.

Cost and Risk outweigh Incentives to publish data, when regulation is not in place...



Industry's support to pricing transparency has not been strong enough to compensate for lack of regulation

Full disclosure of pricing on a public platform is recommended or supported by many players

But is to our knowledge never a strict pre-condition to donor support MIV funding or membership in a national or international microfinance network.

Integrated in the Client Protection Principle Certification Standards, but, for now, a limited number MFIs have been certified

# What next?

MFT's experience should not preclude any new attempts to increase pricing transparency for the sector.

Lessons need to be learnt in order to increase the chances of success of a new initiative.

MFT's model in summary

- Asking MFIs
- one country at a time
- to submit detailed pricing data by product
- Including real repayment schedules
- that would be verified by an analyst
- posted on a public platform,
- available to all for free.

Can we change any of these and still increase pricing transparency in the microfinance sector?

# 1) Build consensus

Organize a **wide consultation** on the new data collection process in order to ensure that the process and the tools are: simple to use, easy to understand, reasonably quick, widely accepted, etc.

Provide a **methodological guide for other pricing data collectors** (raters, auditors, investment officers, etc.) so that all players collect data in a standard format, and can potentially submit it, or share databases.



# What data points to collect?

Microfinance needs to collect pricing data so that clients, MFIs, analysts can **determine whether an MFI charges prices that are above or below the market.**

However, there is nothing like **“THE” price** charged by an MFI, but rather a large price list for each MFI, that results in quite a few cases in a large range of APRs.

And there is also nothing like **“THE” market**, given that most MFIs actually provide a relatively large range of loans, to a diverse range of clients, and compete with several types of actors (other MFIs, banks, pawn shops).

# Organize pricing data by market segments (combination of amount+term)

Cambodia	Loan term				ALL
	> 0 and <=4 months	> 4 and <=10 months	> 10 and <=20 months	> 20 and <=1000 months	
Average <b>Full APR</b> per Market Segment					
> 0% and <= 25% of GNI per capita	n/a	36.8%	35.1%	34.1%	35.5%
> 25% and <= 75% of GNI per capita	n/a	34.8%	33.2%	28.4%	33.2%
> 75% and <= 250% of GNI per capita	n/a	31.9%	30.9%	27.6%	30.0%
> 250% and <= 5000% of GNI per capita	n/a	30.7%	26.4%	24.5%	25.4%
ALL	30.8%	35.3%	32.4%	26.5%	<b>31.6%</b>

# Organize pricing data by market segments (combination of amount+term)

MFI x

Loan term

Average <u>Full APR</u> per Market Segment	> 0 and <=4 months	> 4 and <=10 months	> 10 and <=20 months	> 20 and <=1000 months	ALL
> 0% and <= 25% of GNI per capita	n/a	n/a	32.4%	n/a	32.4%
> 25% and <= 75% of GNI per capita	n/a	32.4%	30.3%	n/a	29.9%
> 75% and <= 250% of GNI per capita	n/a	n/a	24.0%	27.5%	25.5%
> 250% and <= 5000% of GNI per capita	n/a	n/a	n/a	23.5%	23.5%
ALL	n/a	32.4%	29.2%	24.8%	<b>28.1%</b>

# Organize pricing data by market segments (combination of amount+term)

## Comparison MFlx vs. Cambodia

Average <u>Full APR</u> per Market Segment	Loan term				ALL
	> 0 and <=4 months	> 4 and <=10 months	> 10 and <=20 months	> 20 and <=1000 months	
> 0% and <= 25% of GNI per capita	n/a	n/a	-2.7%	n/a	-3.1%
> 25% and <= 75% of GNI per capita	n/a	-2.3%	-2.9%	n/a	-3.3%
> 75% and <= 250% of GNI per capita	n/a	n/a	-6.9%	-0.2%	-4.5%
> 250% and <= 5000% of GNI per capita	n/a	n/a	n/a	-1.0%	-1.9%
ALL	n/a	-2.9%	-3.2%	-1.7%	<b>-3.6%</b>

## 2) Lower barriers and reduce costs

Offer an option of voluntary reporting to all MFIs.

This option should require minimal manual intervention and quick validation by an analyst (consistency checks mostly and no submission of repayment schedules).

More thorough verifications can be sold as an additional service to either MFIs (certification) or Investors/donors/partners (audits/controls).

If MFIs submit data at a moment when analysts are not available to review them, flag the information as “self-reported”, but collect it. It might not be included in the benchmarks if it is self-reported.

## 3) Pool efforts

Explore the possibility for external data collectors to **submit anonymized data** (or data that is anonymized after proper verifications have been done), in a way that respects their confidentiality agreements.

**Upload any publicly available data** in that pricing database (pricing published by regulators or MFIs), so as to serve as a real universal MF pricing data aggregator.

# 4) Increase incentives, reduce risk & limit free-riding

Only publish **aggregated data at the country or market segment level** (average rate, best rate, etc.).

Do not publish detailed data per MFI on a public & free platform in order to reduce the perceived risk for MFIs to provide data.

Provide a **free benchmarking report** to the MFIs who reported their data, and to “data collectors” who have submitted information.

**Sell** access to benchmarking reports per MFI for actors that have not contributed to the data collection.

## 5) Be ready to show a stick...

**Test the mystery shopping approach**, in at least two countries per continent.

- 1) to check the cost of that option that might actually prove cheaper than other options
- 2) to populate the database and allow to have enough data to put in the benchmarks from the start
- 3) to show MFIs that if they do not report voluntarily, data will be collected anyway.



# 6) Find a sustainable financing mechanism

Direct data collection costs could either be:

- Pre-financed:

- By a group of MFIs from a country who want to have a benchmark of their position (the MFI association could centralize the contributions)
- By a pool of donors/MIVs/DFIs interested in a given country
- By an MFI network that wants to demonstrate the transparency of its affiliates and pays for the data collection of these MFIs

- “Reimbursed”:

- Through the sale of data

Donations would be welcome to contribute to the set-up of the system, and to finance the wide consultation of actors.

## 7) The ideal “pricing data collector”

Have a good reputation

Be independent

Have entrepreneurial skills

Have the capacity to design and run a web platform

Have a good knowledge of the local microfinance markets and good connections with MFIs, worldwide.

# Questions

1. Do you think MFIs will participate in a voluntary process and make their pricing data public? If not all, would a critical mass of leading MFIs show the way?
2. Will self-uploaded data with random verification result in sufficiently reliable data?
3. Do you think the proposed system is workable, given the roles of various players? Would you support it?
4. Who will use the pricing data and for what purposes? Will you use it?
5. How important is the availability of pricing data for the microfinance industry?
6. Who can and should pay for this data to be collected and displayed?