PRICING DATA COLLECTION FOR THE MICROFINANCE SECTOR

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What did we learn from MFT's experience?

- MFT's task (asking MFIs, one country at a time, to provide detailed pricing data by product in order to have them verified by an analyst and posted on a public platform) has proven to be a tedious and relatively costly task: the direct costs (data collector's time, travel expenses related to data collection) have been ~$ 2.5k per MFI covered over the 2009-2013 period[1]. This average cost per MFI has been decreasing over-time to reach ~$2k per MFI. In the last year of MFT's operations, the data collection process has been simplified and a pilot suggested that the cost could be reduced to close to $1k per MFI. This new approach was not tested on a large scale.
- Overall, ¾ of MFT[2]'s time has been spent on convincing MFIs to report, rather than on actual processing and verification of data. MFT has tried to work with several types of data collection partners (MFT's dedicated staff, Microfinance Rating Agency staff, Microfinance National Association, MFI holding, MF Investors), and none of the approaches proved to make the data collection easier or faster.
- In some countries where a good regulation is in place regarding pricing transparency and where pricing data publication is actually required by the MF regulator, MFT's task has been a lot simpler and faster (Bosnia and Cambodia). Countries with pricing regulation that include a price cap however did not translate in easier data collection for MFT[3].
- In countries where the regulation does not require the publication of pricing, MFIs often face a situation where costs (time needed to submit information) and risks (reputation risk[4]; competitive disadvantage, etc.) outweigh incentives to publish their pricing data (adherence to ethical standards, benchmark).
- The industry's support to pricing transparency has not been strong enough to serve as a proxy of regulation in the countries where it does not yet exist. 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. This requirement is integrated in the Client Protection Principle Certification Standards, but for now, only 30 MFIs have been certified.

[1] Total cost of $4m over that period, collection for 535 MFIs, some of which have had their data collected twice leading to 766 MFI datasets collected. Direct costs are estimated to be 50% of the total cost. Other costs are on overall awareness raising, trainings, conferences, creation of reference documents, tools, etc and general management.

[2] MFT or its data collection partners

[3] In the UMEOA region for instance, data was collected but could not be published given that the regulation was not properly enforced which means that several MFIs charged rates above the theoretical price cap.

[4] This blog post by Hugh Sinclair is an illustration of how the reputation risk is exacerbated by the publication of high APRs (the reputation risk being actually generated by the high APRs themselves) http://blog.microfinancetransparency.com/an-opportunity-for-the-poor/

What next?

MFT's experience should not preclude any new attempts to increase pricing transparency for the sector. But lessons need to be learnt in order to increase the chances of success of a new initiative.

As indicated above, MFT was **asking MFIs (one country at a time) to provide detailed pricing data by product** that would be **verified by an analyst** and then posted on a **public platform**, and **available to all for free**.

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

I believe this is the case. An actor launching a new pricing data collection initiative should thus at the minimum try to find the best answer to the following questions:

- **What data points to collect?** Detailed pricing data per product, or…?
- **How to collect and process data?** By asking MFIs (one country at a time) to provide data or…? Verification by an analyst or …?
- **To put them where?** On a public platform, or …?
- **With which business model?** Free information platform financed by donations, or … ?

The rest of this paper examines the alternatives for the five questions, while keeping in mind the type of use that can be made of pricing information (see table below).

ACTOR	USE OF PRICING DATA	KEY CHARACTERISTICS OF PRICING DATA NEEDED
MFI CLIENTS	Compare prices and find best loan offer	APR provided on all loan offers, ensuring comparability National Benchmarks: - Average APR or best available APR for comparable loans (combination of term/amount/guarantee/purpose)
MFI	Ensure competitiveness of loan offer	National Benchmarks: - APRs for comparable loans (combination of term/amount/guarantee/purpose)
DONORS/ INVESTORS/ PARTNERS	Analyze an MFI's competitive position. Evaluate the compliance with Responsible Pricing standards	International and national Benchmarks: - Average APR of the MFI - Average APR for each market segment served by the MFI.

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Summary of key suggestions

The reasoning behind these suggestions is found in the following pages.

- 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).
- 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.
- 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.
- 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.
- 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.
- Upload any publicly available data in that pricing database (pricing published by regulators or MFIs), so as to serve as a real universal MFI pricing data aggregator.
- Test the mystery shopping approach, in at least two countries per continent. This will allow: 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.
- Find a sustainable financing mechanism for the direct data collection costs from the start. These 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.
- The "pricing data collector" should: 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.

Which data points to collect?

First, let's agree on a few definitions:

- ***Loan**: A precise combination of amount, duration, pricing characteristic (interest rate, commissions), guarantee and collateral requirements that has a precise APR.*
- ***Product**: The denomination used by an MFI to describe its credit offering. Each product might actually include a wide range of amounts, duration, pricing characteristics, and hence a wide range of APRs.*

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[5]. 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).

In order to know with precision which data points to collect, the methodology that defines whether an MFI charges "market-based" prices needs to be made more precise as it is currently vague. This is being worked on by Smart Campaign and also by Chuck Waterfield as part of the MFT's winding down action plan. In the following pages are a few additional ideas to feed that current process.

[5] For instance, 40% of the MFIs in the MFT database have a width of APRs (max-min APR charged) that is above 30pp.

How to decide whether an MFI charges market-based prices?

For reasons indicated above (large price range, varied market served), analyzing the competitive position of an MFI, or its compliance with responsible pricing standards should to be done at the **market segment level.** The industry currently lacks a precise and international definition of the market segments. Several segmentations exists: by loan methodology (individual, solidarity group), by target clients (micro-enterprise, SME), by purpose (working capital, productive investment, housing, consumer, education, etc.) but these are all too broad to be adapted to the analysis of the pricing of loans. When it comes to pricing, the major determinants are the **loan term** and **loan amount** as well as, to a lesser extent, collateral requirements. In the rest of the document, market segment will thus refer to a category of loans, defined by a range of amounts and a range of terms. Below is a proposed definition of **market segments**.

TENTATIVE DEFINITION OF MARKET SEGMENTS

Loan terms can be tentatively categorized in 4 buckets (0-4months, 4-10 months, 10 to 20 months, 20 months and above[6]). **Initial loan amounts** can be categorized in 4 buckets as well, designed to be internationally comparable (0-25% of GNI per capita, 25-75%, 75%-250%, more than 250%). A market segment can be defined as a combination of loan amount bucket and loan term bucket, thus creating 16 segments. Further research would be necessary to determine with precision the appropriate market segments, by identifying market segments with a reasonable standard deviation of APRs in most countries. A larger number of buckets might be necessary to reach that goal. The relevance of adding a third dimension (collateral requirement or purpose) would need to be further examined.

The data collected should allow to know the range of APRs charged on each market segment, in order to be able to calculate an average APR, or typical APR (mode), or the best APR, etc. at the international, regional or country level. Please see below the example of the average APR per market segment taken from the MFT database.

Full MFT database

Note: MFT's database has an over-representation of Sub-Saharan Africa and cannot necessarily provide a good estimation of the international average APR. It however allows the see how the range of APRs is affected by both term and amounts.

		Loan term				
Initial loan amount / GNI per capita	Average **Full APR** 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	122.3%	74.9%	37.7%	28.0%	62.9%
	> 25% and <= 75% of GNI per capita	110.8%	80.2%	44.1%	29.1%	60.7%
	> 75% and <= 250% of GNI per capita	106.4%	83.2%	53.4%	27.8%	59.8%
	> 250% and <= 5000% of GNI per capita	100.9%	78.8%	53.4%	26.9%	47.6%
	ALL	114.3%	78.7%	45.5%	27.7%	**59.0%**

[6] Each time the buckets excludes its bottom limit and includes its upper limit.

Below is the application of this market segment approach to Uganda, and to the analysis of Finca Uganda's pricing. The bottom table shows the market segments for which Finca Uganda charges APRs that are below market (in green), and the market segments for which it charges APRs above the market (in red). In order to have a full picture, it would be important to also show the market segments where FINCA Uganda's loan portfolio or borrowers are concentrated. This would allow to calculate a weighted average APR which is more relevant than a simple average.

FINCA-UGA

Initial loan amount / GNI per capita \ Loan term	> 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	n/a	n/a	n/a
> 25% and <= 75% of GNI per capita	n/a	88.2%	n/a	n/a	90.6%
> 75% and <= 250% of GNI per capita	n/a	85.0%	69.0%	n/a	76.9%
> 250% and <= 5000% of GNI per capita	n/a	n/a	56.2%	55.9%	59.8%
ALL	n/a	86.4%	59.6%	56.6%	**69.5%**

Uganda

Initial loan amount / GNI per capita \ Loan term	> 0 and <=4 months	> 4 and <=10 months	> 10 and <=20 months	> 20 and <=1000 months	ALL
> 0% and <= 25% of GNI per capita	97.2%	93.9%	n/a	n/a	93.3%
> 25% and <= 75% of GNI per capita	117.5%	77.6%	53.6%	n/a	78.4%
> 75% and <= 250% of GNI per capita	81.6%	74.1%	61.1%	41.7%	66.5%
> 250% and <= 5000% of GNI per capita	82.7%	62.6%	54.0%	39.5%	53.8%
ALL	100.2%	77.5%	56.6%	40.7%	**68.6%**

Comparison of FINCA-UGA with Uganda

Initial loan amount / GNI per capita \ Loan term	> 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	n/a	n/a	n/a
> 25% and <= 75% of GNI per capita	n/a	10.5%	n/a	n/a	12.2%
> 75% and <= 250% of GNI per capita	n/a	11.0%	7.8%	n/a	10.3%
> 250% and <= 5000% of GNI per capita	n/a	n/a	2.2%	16.3%	6.0%
ALL	n/a	8.9%	3.0%	16.0%	**0.9%**

Why portfolio yield should not be used to judge on the Responsible pricing of an MFI

The use of portfolio yield to judge on the responsible pricing of an MFI has three fundamental flaws and should be discontinued:

a) Portfolio yield is in fact a weighted average of all interest rates (APR incl. int+fee) charged by an MFI. The weighing is done based on the amount of loan portfolio that bear the different interest rates. This underrepresents small loans vs. large loans.

b) In reality, MFIs charge a wide range of prices (The spread between the max APR and min APR charged by an MFI has a median of 20pp; 40% of MFI actually have a spread over 30pp – *data from MFT database*). Portfolio yield only looks at the average and totally misses that information.

c) The portfolio yield is not a good proxy for APR when an MFI uses "cash collateral", or when the MFI bundles its loan with services provided by third parties (credit insurance, etc.) which revenues might not be reflected its financial statements.

Which data points to collect? (Continued)

Pricing characteristics

Ideal: Given the range of prices charged by most MFIs, the best is to collect information on the pricing of all loans offered by an MFI. The data collection format could include all information needed to calculate the APRs for each loan offered by the MFI, as well as the number of active borrowers and corresponding outstanding loan portfolio at a given cut date (see Template 1). Based on this description of the loan offering, the APR for each loan can be automatically calculated, using MFT pricing data calculator or a similar tool. Automated processes should be put in place to reduce the amount of manual intervention. MFT will actually release in the coming month a revised version of its data collection tool that can certainly serve as a very good basis for any future initiative. This first option allows to calculate a precise weighted average APR for each market segment, taking into account the number of borrowers that use each loan. Because a detailed information has been gathered it is also possible to adjust the definition of the market segments at a later stage if needed, notably if country-specific market segments need to be created for a local pricing platform. MFIs with either a good MIS or short product ranges can easily fill a table such as Template 1.

Alternative 1: MFIs that have both a large product range AND an unsophisticated MIS will have more difficulties to fill in template 1. In that case, they usually can always fill in the Template 2, which is currently used in the SPI4 file. This second template uses the "Product" concept that is most commonly used by MFIs, and asks for the minimum, maximum and most frequently used amounts, terms and nominal interest rates for each product, as well as the number of active borrowers and portfolio for that product. Based on that, a list of most common loans could be automatically generated by creating most probable combinations of amount, term, interest rate. This second option does not allow to have a very precise calculation of the weighted average APR for each market segment, but a simple average could then be used, or the "most frequent" amounts and terms could be used.

Alternative 2: A list of "typical loans" could be defined for each country that would provide a good representation for each market segment:

- Typical loan 1: 20% GNI per capita (i.e. $500 in that country), 3-month, uncollateralized, for working capital;
- Typical loan 2: 40% GNI per capita (i.e. $1000 in that country), 6-month, with guarantor, for working capital, etc.

MFIs would then need to submit a list of all loans they offer that correspond to these "typical loans", with their detailed characteristics and number of active borrowers. Ideally, "typical loans" would be comparable across country. This approach limits the data that needs to be collected from each MFI, and allows to evaluate the competitive position of each MFI. It does not ensure that the full product range of each MFI is covered, does not allow to conduct cross-checks based on the full portfolio and should be used mostly if an independent data collection approach is chosen (mystery shopping; see later).

Repayment schedules?

MFT's initial data collection methodology required MFIs to submit a number of repayment schedules for which the APRs would be calculated. The revised data collection methodology reduced the number of repayment schedules to be submitted and relied on the description of the loan offer to generate the APRs for the least used products, generating significant time savings. The collection of repayment schedule allows to identify potential ambiguities or misunderstanding in the way MFIs have filled in the data collection templates. Pricing of loans can indeed be very complex and MFT has identified that MFIs often made mistakes in the way they entered the data.

I would actually however suggest that no repayment schedule be collected, unless an "independent data collection" approach is taken (see later). Indeed, even if the verification of the repayment schedules allows to identify potential errors in the way the loan offer has been described by an MFI, it does add a significant amount of effort and can be kept for "premium" offers or certifications. It is also to be noted that repayment schedules might not include all fees paid by the clients, and that a full "certification of pricing" should actually include a review of the credit procedures, and of the financial statements in order to have a full picture.

Major errors in the way the loan products have been described might be spotted through consistency checks with the financial statements (see below).

Other data?

For MFIs that have not yet posted their audited financial statements on the MixMarket, should be asked to do so, so that their portfolio yield can be calculated[7].

A consistency check can be done by comparing the overall weighed average APR for the MFI (int+fee+ins)[8] to the portfolio yield, thus limiting the potential for mistakes or errors in the data submission.

[7] Technical detail: ideally, the monthly evolution of the total gross loan portfolio should be asked, in order to be able to calculate a precise portfolio yield.

[8] The Full APR cannot be compared to the portfolio yield because the effect of taxes, and of cash collateral (or mandatory savings) does not show in the portfolio yield; the APR that only takes into account interest rate, fees and insurance can be compared to the portfolio yield. Please note that insurance fees are not always collected by the MFIs and might actually be directly transferred to an insurance company, in which case the portfolio yield should be compared the the APR (int+fee).

How to collect data?

Voluntary reporting? Mandatory reporting? Independent data collection?

As indicated in the introduction, mandatory reporting is certainly the best/easiest way to collect pricing data, as it is the only one that allows to fully overcome the reluctance to report pricing data. This requires either:

- a decision of regulators/governments, for which Microfinance stakeholders can lobby, but that can take a long time to materialize
- a very large consensus and commitment of all microfinance stakeholders (donors, investors, national and international microfinance association) to require pricing data to be reported before any other actions can be taken (donation, investment, partnership, membership, etc.). This broad consensus is unlikely to be reached.

For the two reasons above, the route of mandatory reporting, even if desired, cannot be counted on in the short term to generate pricing transparency at the global level in microfinance. Furthermore, even if all countries where microfinance operates had a Truth-in-Lending legislation, it would still make sense to have a platform to aggregate these pricing data that would likely have slightly different formats, in order to create international benchmarks.

Voluntary reporting has been used by MixMarket for a long time to collect data from MFIs, and has been also used by MFT. In both cases, it has allowed to gather a good amount of data, and in both cases it does come with significant efforts to make sure the MFIs actually submit the information. The key success factor when a voluntary reporting approach is used, is the existence of sufficient incentives/rewards for MFIs to report in order to overcome the costs/risks linked to the reporting. In the case of MixMarket, when asked why they report, MFIs indicate the following reasons: 1) visibility offered by the presence of MixMarket (notably to funders) 2) the possibility to get a specific benchmarking report (barometer, etc.) 3) requirements from the MFI association or funder(s). The effectiveness of these incentives vary overtime and depend on the market conditions: development of local sources of funding reduce the need for MFIs to be visible on an international platform, years of bad performance for an MFI generate what is perceived as more risks than reward to report, excess funding available reduces the capacity of funders/donors to enforce their requirements.

In the case of MFT the incentives were 1) the possibility to be in compliance with ethical/responsible finance standards 2) the fear of public shaming for being the only/few MFIs in a country that would not have provided data 3) pressure from funders/shareholders.

If the route of voluntary reporting is chosen, it would be very important to further increase the incentives and reduce risks for MFIs to report their pricing data:

- Reduce risk by restricting access to detailed pricing information by MFI, and publishing mostly benchmarks; detailed pricing by MFI might be made accessible to specific actors only, or subscribers.

- Increase incentives by providing MFIs who provide data with a specific benchmarking report. This could help transform the reporting of pricing as something that makes business sense rather than something that only has a cost/risk.
- Implement stronger requirements for pricing transparency (for instance for MFIs to be listed at Smart Campaign endorsers or other incentives of the kind).
- Whichever way is chosen, MFIs that report should have access to more market intelligence than the ones that do not.

Independent data collection is another option to consider. It is a standard way to collect price benchmarks in most markets and has the huge advantage not to depend on the willingness/capacity/rapidity of the MFIs to provide data. Pricing data collection for loans is a bit more complex than for products that are sold on the shelves of supermarkets: 1) because the customer needs to give quite a bit of information before receiving a loan offer 2) because the lender can decide not to sell its "product" (loan) to a given customer 3) and because prices can differ based on each person's credit history. Benchmarks of bank interest rates however exist for mainstream banks[9] and should be possible to collect as well for MFIs. Several options can indeed be envisaged that should allow to overcome potential hurdles:

- Mystery shopping: Sending surveyors to ask for a loan offer. The typical methodology in bank benchmark collection is the following[10]:
    - The "Benchmarker" defines a list of client profiles, loan types and scenarios: "45 year-old female, looking for a loan of 500$ for 3 month to finance the inventory of her shoe shop",… Usually, 15-20 scenarios are defined.
    - Each surveyor is trained on one scenario that he/she will use will all FIs in the market. One scenario might be tested by several surveyors in order to have a way to check consistency.
    - One way to overcome the hurdle of the training of surveyors and potential differences in social status between "typical surveyors" and "typical client" is to hire FI clients to be the surveyors. This could actually be a great financial education program to teach clients how to gather information about the different loan offers.
    - A surveyor spends between 20min (phone inquiry) and 60 minutes per FI (physical visit).
    - The cost is < 2,000 EUR per survey in France (~50 data points collected, often by phone).
    - Hurdles to be overcome: Possibility to get the detailed loan offer without submitting documents? Need to go all the way to the disbursement process in order to get the full information on the price? Credit history of the surveyors affected by these surveys in some countries? Fluctuation of prices from on branch to another? Influence of the credit history on the price? All these hurdles should be possible to overcome.

[9] Bankrate in the US; Meilleurtaux.com in France, etc. Usually these actors are brokers that use the publication of benchmarks that they gather through their brokerage activity to attract customers.

[10] Information gathered through an interview of Market Audit, a French company specialized in pricing data collection for several industries, and notably Financial services where it works for FI, pools of FI, the Bank supervisory authority. Contact person: Nathalie Lecuyer; Market Audit - Pôle Services - Directeur Général Adjoint - Tél : 03 595 695 02 - Port : 06 85 54 58 17 - @ : nlecuyer@marketaudit.fr ; another company that provides similar services in France is Semaphore Conseil.

- Audits/ratings: Microfinance raters already collect pricing data and repayment schedules as part of their work. They however do not do that with a unified methodology, and only have a partial coverage of the sector. Having access to their data would however still be useful. External auditors might also be able to collect that type of information as part of their review of the financial statements. This information would actually be useful for them to identify potential risks (disconnect between portfolio yield and APR charged is a sign of potential credit risk issue or fraud). Ensuring that all auditors conduct these verifications and provide the data on a common platform could however be a challenge.

- Investment or project officers from MIVs, DFIs, Donor (IOs): Some MIVs, DFIs or Donors ask their IOs to issue an opinion on whether prices charged by a given MFI is responsible. In that case, IOs do collect some pricing data, albeit with methods that vary greatly from one player to the other. The pilot conducted by MFT contributed to demonstrate that, even if these players can usually get this information from MFIs, they have difficulties getting the authorization to share it. The pilot also demonstrated that the time of IOs is very scarce and that additional tasks can only be added if they allow to save time on other aspect of the work.

Depending on the processes of the MFIs and on the option chosen, one can estimate that it could take anywhere from 20 minutes to 2 hours to get one data point (APR for one loan). The cost of this system will also vary greatly depending on the number of data points to be collected (number of loans for each MFI), on the type of surveyors (volunteer, commercial company, etc.) and on the possibility to mutualize this cost with other consumer protection/quality control initiatives.

One country at a time? Anytime, Anywhere?

MFT mostly worked on a country by country basis. This has been linked to a combination of funding conditions (earmarked for a specific country), operational constraints (easier to focus staff time on a given country at a time, especially given some language barriers), and conceptual choices (in order to reduce the reputation risk for MFIs who reported pricing data, and the reduce the potential for free-riding, the data was only published on MFT's website once MFIs representing more than 80% of the country had submitted information). For reasons essentially linked to operational constraints, MixMarket actually uses this concept of windows of time during which MFIs from a given country are asked to/can report.

While this is totally appropriate if the "independent data collection" option is chosen, this is more questionable in the case of voluntary reporting. This indeed creates cases when an MFI wants to report and cannot. Which certainly is a disincentive to provide data. A solution should always be offered for MFIs to report data if and when they want to.

Free, public platform? Paywall?

MFT's approach was to make detailed data available to the general public, which required MFT to rely on donations to finance its operations. This is also the approach that has been used by MixMarket for most of its existence. A few years ago, MixMarket has started to develop a premium offer in order to reduce its dependence on subsidies. Asking users to pay for data that used to be free has proven difficult and so far, only 10-15% of the MixMarket budget is covered by fee based services.

Having pricing benchmarks available for a large audience certainly creates positive externalities for the market in general which can justify making this information available for free. If MFI clients are the target audience, the publication of data on local websites should be considered (MF association, regulator, or consumer association) in order to increase the local visibility of the data.

- *A good example of such benchmarks that are designed to be used by end clients is offered by www.meilleurtaux.com that provides 3 data points for each loan type (very good rate, good rate, average rate) allowing end clients to see if they have room for negotiation. It is interesting to note that this information is provided by a commercial actor (financial service broker) that uses this information to attract customers. This commercial model, paid for directly (fees) or indirectly (advertising, sale of database), by end-clients is however unlikely to be replicable to the MF industry where the end-clients are less affluent, connected to internet and attractive for advertisers. Mobile platform might however change this paradigm.*

Having detailed pricing information at the MFI level available for free actually also creates "private" positive externalities (the MFI that can compare itself to a direct competitor, the investor that can evaluate the opportunity to invest in an MFI, etc.) and it might be better to keep these being a paywall.

A few lessons learnt if the route of a free public platform subsidized by donations is chosen:

Donors that subsidize heavily the collection and publication of data, should consider themselves the "shareholders" of a public good and as such should have:

- Clear targets for their "return on subsidy": usually a positive externality for the market
- Regular monitoring of whether these targets are being achieved: this will likely require specific studies/research/evaluations
- An active supervisory role: providing a free service creates a *de facto* monopoly on this "market" for the data provider that has been chosen (it is almost impossible for other offers to compete with them). This monopolistic situation entails risks of being lax on adaptation, quality, or cost of service. These need to be carefully monitored, by an active Board supported by independent evaluations.
- An exit strategy:
    - The positive externalities created by the publication of data might be high enough that the exit will never be justified: in that case, donors should be clear that they are up for a "permanent" subsidy;

- "Permanent" subsidies being relatively rare, the business model of the data platform should be thought through from the beginning taking into account alternative models. Identifying potential clients of the data and how much they might be able to pay allows to design the data collection process in a realistic way, and ensures that only data that is really valued by users is collected.

If the implementation of a paywall is envisaged:

The MFIs that have submitted data (with a sufficient level of detail, quality, and frequency) should be able to access information for free, or at least should be able to access more information than the ones who do not provide data). The same should apply to external data collectors.

How much can it cost?

A very rough estimation of the cost can be found below and gives a range of $250-400k per year.

- Web platform: $ **50-100k** for the set-up (amortized on 3 years) and **$10-20k** of maintenance per year[11]
- Data validation for voluntary reporting: ½ day (i.e. ~ $ 100-200) per MFI>. **$ 70-140k per year** for 700 MFIs
- Mystery shopping/client survey: $5,000 per country[12], to be done in 10 countries each year, i.e. **$ 50k per year**
- Management
    - If creation of a new entity: 1 manager, **$100-150k per year**
    - If run by an existing entity: 1 middle manager in charge of business unit **$60-90k** per year

Who should collect data?

This point is the most critical of all, and no obvious option comes to mind. Below are a few thoughts on that topic.

The skills needed to operate such a pricing data collection platform are the following:

- Good reputation: data that will be submitted to that platform or collect by that platform is sensitive; all MF actor should be able to trust that players to have good quality controls, staff held to high ethical standards, good security procedures.
- Independence: this pricing data collection platform should be run by a player that has no ties with any MFI to avoid any suspicion on the way data might be used/processed.
- Entrepreneurial skills (especially if the "permanent subsidy" option does not seem realistic).
- Capacity to design and run a web platform, with good data visualization and data download options, capacity to manage user profile with different access rights, and ideally collaborative (wiki-like).
- Knowledge of the local microfinance markets, and capacity to identify the right terminology to be used in each country for the different technical terms.
- Good connections with MFIs, worldwide, to facilitate contacts in case any issues with the data arise.

Three types of players could run this pricing data collection platform

- A new player
- One of the existing microfinance information infrastructure players
- A mainstream financial sector data provider

[11] Rough estimations based on quotes received for SPI4 data platform, and cost of the current MFT platform.

[12] For mystery shopping, estimation of ~1hour per loan * 10 loans per MFI * 10 MFIs per country * $200 per day; i.e. 1.25 days per MFI + Supervision & training (5 days @ $500 per day)

TEMPLATE 1

MFI NAME *COUNTRY*	*Loan 1*	*Loan 2*	*Loan 3*	*[…]*	*Loan X*
Name of the product					
Purpose					
Methodology					
Currency (in international currency code)					
Loan amount					
Term in number of periods					
Frequency of instalment					
Grace period (in number of instalments)					
Security Deposit (%) [Upfront]					
Security Deposit, in amount [Ongoing]					
Interest rate method					
Nominal Annual Interest Rate					
Up-front fee(s) in % of the loan amount					
Fee (%) [Ongoing]					
Insurance fees in % of the loan amount					
Any additional flat fee (in amount)					
# of active borrowers as of xx/xx/xxxx					
Gross loan portfolio as of xx/xx/xxxx					

TEMPLATE II

MFI Name *Country*	*Product-1*	*Product-2*	*Product-3*	*Product-4*	*Product-5*
Name of the product					
Purpose					
Methodology					
Currency (in international currency code)					
Loan amount (min)					
Loan amount (most frequent)					
Loan amount (max)					
Term & Repay Frequency in number of periods (min)					
Term & Repay Frequency in number of periods (most frequent)					
Term & Repay Frequency in number of periods (max)					
Frequency of instalment					
Grace or Prepay (in number of instalments)					
Security Deposit (%) [Upfront]					
Security Deposit, in amount [Ongoing]					
Interest rate method					
Nominal Annual Interest Rate (min)					
Nominal Annual Interest Rate (most frequent)					
Nominal Annual Interest Rate (max)					
Up-front fee(s) in % of the loan amount					
Fee (%) [Ongoing]					
Insurance fees in % of the loan amount					
Any additional flat fee (in amount)					
# active borrowers as of xx/xx/xxx					
Amount of gross loan portfolio as of xx/xx/xxx					