



Chuck Waterfield

IMPLEMENTING PRICING TRANSPARENCY IN MICROFINANCE



Microfinance has long been a highly transparent industry, and rightly proud of it. We share a wide variety of financial indicators about our MFIs. Unfortunately, the true price of microfinance loan products has never been accurately measured nor reported. For an industry born to “displace the moneylenders” by providing low-cost credit to the working poor, this is hard to imagine and even harder to explain. In addition, non-transparent pricing is a serious market imperfection that impedes efficiency, sound management decisions, and healthy consumer choice.

Non-transparent pricing is certainly not unique to microfinance. Because of confusing pricing practices, many countries require commercial lenders to state true product pricing using Annual Percentage Rate (APR) and Effective Interest Rate (EIR) standards. Should we not apply the same standards within the microfinance industry?

Opaque pricing environments allow opportunities for lenders to charge prices that result in very high profit levels, and high profits generated off the poor by charging non-transparent prices can create a bad public image for the microfinance industry and result in a strong public and political backlash.

Given this reality, the industry has been in intensive dialogue, and one outgrowth has been the establishment of MicroFinance Transparency, a non-profit agency that addresses pricing transparency through two joint activities. First, MFTransparency will collect prices on all micro-loan products around the world and report those prices by a common, objective measurement system. Second, MFTransparency will develop and disseminate educational materials to enable microfinance stakeholders at a broad range of levels – analysts, donors and

investors, MFI managers, microentrepreneurs themselves – to better understand the concept and function of interest rates and product pricing.

MFTransparency has secured initial start-up funding, including grants from several e-MFP members – Oikocredit and three MicroNed members (Hivos, ICCO, and Oxfam Novib). Data collection has begun in Peru and Bosnia through a pilot testing of the MFTransparency methodology funded by CGAP.

Through industry discussions we concluded that an industry-wide effort towards transparent pricing is essential to the long-term survival of the microfinance sector. We need to practice what formal finance practices in many countries – we need to publish honest prices. This will correct the current market imperfection that impedes efficiency, sound management decisions, and healthy consumer choice. Since its launch at the Bali Microcredit Summit last year, over 150 people have endorsed the transparency principles of MFTransparency. The full list can be found at our website (www.mftransparency.org), and a short list of e-MFP members who have endorsed MFTransparency appears at the end of this article. We encourage you to study our principles and, if you are in agreement with our mission, to add your name to our list.

The industry needs to act, and we need to act soon. What non-transparent pricing has kept hidden for years is no longer hidden – and it should never have been hidden! Pricing transparency is essential to building a healthy and vibrant market for microcredit products. It provides a valuable component necessary in free markets and currently absent in microfinance – transparent, open communication about the true cost of products.

CURRENT

Aldo Moauri *Microfinanza Rating (Italy)*

Johannes Sannesmoen *Stromme Foundation (Norway)*

e-MFP MEMBER

Resi Janssen *MicroNed (Netherlands)*

Mark van Doesburgh *Triple Jump (Netherlands)*

ENDORSERS

Frank Bakx *Netherlands Platform for Microfinance (Netherlands)*

Jacques Tourelle *Aga Khan Agency for Microfinance (Switzerland)*

Tor Gull *Oikocredit (Netherlands)*

Joanna Ledgerwood *Aga Khan Foundation (Switzerland)*

Bruno Molijn *Oxfam Novib (Netherlands)*

Lora du Mulin *RAFAD (Switzerland)*

Minh Huy Lai *Planet Finance (France)*

Roy Mersland *University of Agder (Norway)*

Emmanuelle Javoy *Planet Rating (France)*



CALENDAR OF e-MFP EVENTS

6 May 2009	e-MFP Board meeting, Luxembourg	J	F	M
2 - 4 June 2009	First European Research Conference on Microfinance, Brussels	A	M	J
31 August - 1 September 2009	e-MFP Research Working Group/Agder University, Kristiansand	J	A	S
24 - 26 November 2009	European Microfinance Week 2009, Luxembourg	O	N	D