

MFTRANSPARENCY UPDATE



“We have made major investments in improving the quality and clarity of information on microfinance institutions. But we have not yet invested as much as we should in making sure costs of financial services for poor clients are clear and fair. MFTransparency’s initiative is a bold one that promises to fill an important gap.”

Elizabeth Littlefield, Director and CEO, CGAP

“Transparency is the root of every healthy industry. It is fundamental to good business practices.”

Asad Mahmood, Director, Community Development Group, Deutsche Bank

The past year for MFTransparency has been abundant with early successes and new opportunities, thanks to the broad support we have received from industry partners from around the world. Events such as the **European Microfinance Week** have provided us with a platform for explaining our approach, and yielded a wealth of new voices advocating the importance of pricing transparency. For MFTransparency this has been a year of growing into our identity as an organization and as part of the microfinance community. The following sections highlight our progress and upcoming initiatives.

Strengthening the Microfinance Ecosystem

MFTransparency believes that implementing pricing transparency is a process of strengthening the relationships between all members of the microfinance ecosystem. In order to be successful, all stakeholders must be engaged in the process. MFTransparency offers training and educational materials to all types of actors in the local market, including MFIs, clients, networks, investors, regulators, support organizations, academic institutions and the media. Through virtual and in-person events and our website we are developing a platform for industry actors to work together to create a conducive environment for transparent pricing.

More than 400 individuals and organizations from around the world have publicly committed to pricing transparency by endorsing MFTransparency, including 26 e-MFP members. The diversity among our endorsers is a testament to the new linkages we are creating within the industry through our work on transparent pricing.

North-South Partnerships

In each country where MFTransparency works we partner with institutions in the local industry to ensure that our work is adopted into the infrastructure of that market. In Azerbaijan, the Azerbaijan Microfinance Association was a vital partner in our data collection process and the piloting of our new savings tool. In Kenya we worked with the Central Bank of Kenya and Financial Sector Deepening Kenya to tailor our work on the regulatory framework to existing projects and policies. ACCESS Development Network is currently helping us build relationships with Indian microfinance service providers of all types throughout the country. In Bolivia, we have a strong relationship with the two microfinance networks ASOFIN and FINRURAL, while the Red Financiera Rural (RFR) has actively supported our work in Ecuador since long before the project launch. It is only through partnerships like these that we are able to make real, lasting steps toward transparency.

Knowledge Creation

A major component of MFTransparency’s work is the creation and dissemination of information that the industry currently lacks. At the core of this is pricing data for microfinance products, supplemented by analysis, reports and contextual information. In November MFTransparency had

its first data launch, making pricing data for microfinance available on the product level for the first time in the history of the industry.

Where data was our primary focus in 2009, in 2010 we will be scaling up our work on educational resources so that various stakeholder groups can maximize the value of this data through implementation.

Education through Dialogue

One of MFTransparency’s most important accomplishments so far has been to further the discussion about transparent pricing. In addition to encouraging dialogue among local industry actors, upcoming MFTransparency projects will expand these discussions across countries. For example, a new initiative, known as the enabling APR & EIR Project (enabling Africa to Price Responsible & Educate on Interest Rates) and funded by The MasterCard Foundation, will bring together 8 countries in Africa to exchange ideas and experiences for implementing transparent pricing in the microfinance industry. A separate project, funded by the Luxembourg Development Cooperation, will facilitate the same exchange among the members of the West African Economic and Monetary Union.

We have further fuelled worldwide discussion of transparency as speakers at over 20 industry events including the **European Microfinance Week**, the Microcredit Summit in Nairobi, the ForoMic for Latin America, the Africa Microfinance Transparency Investor’s Fair, and the India National Microfinance Conference.

Policy for Transparency

The widespread use of non-transparent pricing practices is most common when countries lack strong regulatory frameworks. MFTransparency strives to bring regulators into the transparent pricing arena, working closely with them in most of the countries where we are active. We confer with the regulators on existing laws and share examples used in other countries, including advice on the relative strengths and weaknesses of the different approaches we have researched. We have also scheduled several conferences to bring regulators together to dialogue and learn of different approaches they can employ.

Responsible Finance

Although MFTransparency’s activities focus on pricing transparency specifically, we work within the broader context of responsible finance. Through our Global Transparent Pricing Initiative we seek to bring this issue to the forefront of the discussion and then provide industry actors with the information and tools to understand and act on it. Serving on both the Steering Committee of the Smart Campaign and the Grameen Crédit Agricole Ethics Committee, we have begun to play an active role in transforming this conversation into a reality. In the many workshops and presentations we have given throughout the world, our goal is always to connect



Source: MFTransparency



pricing transparency to the broader themes that we must consider collectively.

Like MFTransparency, the microfinance industry as a whole has reached a point where it must actively make decisions about its identity, how it will accommodate new actors and new ideas while serving its primary purpose, to alleviate poverty,

better and more fairly. We are grateful for the opportunity to work alongside our partners in the industry to contribute to this self discovery, both in what we do and the principles we espouse, and look forward to continuing this contribution.

For more information, please visit www.mftransparency.org



NEWS FROM THE BOARD

BOARD MEETING IN BONN

The last meeting of the e-MFP Board was held on 26 April 2010 in Bonn (Germany) in the premises of e-MFP member DGRV (German Cooperative and Raiffeisen Confederation). The visit gave the Board the opportunity to learn more about DGRV's microfinance activities which concentrate on the promotion and the set-up of sustainable, self-supporting and business-oriented self-help organisations, cooperative organisations and their federations and to exchange views with Mr. Paul Armbruster, Head of DGRV's International Relations department.

On the agenda of the Board meeting, the main issues for discussion were the preparation of the European Microfinance Week 2010, the final approval of the e-MFP Business Plan and the review of the Millennium Development Goals.

In the evening the German Microfinance Platform and e-MFP organised a dinner together which gave the opportunity to get to know each other better and to create a link between the two organisations.

UNIVERSITY MEETS MICROFINANCE (UMM)



Thilo Klein

Three students were recognized for outstanding microfinance research in the frame of the "University Meets Microfinance" programme. The programme is co-financed by the European Union and has been initiated by Freie Universität Berlin and PlaNet Finance. In the second of the series, e-MFP presents another award winning thesis. Thilo Klein, currently studying at Cambridge University, received a "University Meets Microfinance" Award for his Master thesis on online lending platforms written at the University of Jena, Germany, in 2009.

The thesis "Microfinance 2.0 – Group Formation and Repayment Performance

in Online Lending Platforms" examines the role of reputation based intermediaries on the world's largest peer-to-peer online lending platform. This marketplace as well as other recently opened lending websites allow people to auction micro-credit over the internet and are in line with the disintermediation in financial transactions.

In the online market, the screening of potential borrowers and the monitoring of loan repayment can be delegated to designated group leaders. The study found that, despite superior private information, these financial intermediaries perform worse than the average lender with respect to borrower selection. Statistics attribute ineffective results of borrower selection to the fact of deliberately sending wrong signals. The results of bivariate probit model estimates of the effect of group membership on loan default indicate positive self selection into group loans. This means that borrowers with worse observed and unobserved characteristics select into group contracts. The study provides evidence that this is due to a

misleading group reputation system that is driven by a short term incentive design, which was introduced by the platform to expand the market and has been discontinued in September 2007. Furthermore, after controlling for the platform's incentive design, responsible for driving the group growth and the ineffective selection effect, group affiliation per se, significantly reduces the probability of loan default.

The thesis reveals mixed evidence of the potential of online lending platforms to transfer the group lending model from developing countries to online communities in the competitive U.S. retail banking market. Additional research is needed to understand the mechanism of online credit information networks and their potential to ease access to entrepreneurial finance for the credit constrained in industrialized countries.

The thesis was supervised by Dr. Jagannadha Pawan Tamvada, Max Planck Institute of Economics, Jena, Germany. You can order the thesis at www.universitymeetsmicrofinance.eu

UPCOMING UMM EVENTS 2010

September 6th: UMM – Session during the Conference on Global Partnerships in Microfinance, University of Greenwich

October 22nd: UMM Workshop at the University of Bergamo, in cooperation with the Master in Microfinance

November 30th: UMM – Session during the European Microfinance Week

APPLICATION DEADLINES 2010

UMM Scholarships for field research: July 15th (Bachelor, Master, PhD) and November 15th (Bachelor, Master).

UMM Awards for completed Master theses. Application deadline: August 31st 2010.

For more information visit www.universitymeetsmicrofinance.eu or contact Delphine Bazalgette / Kathleen Welvers, PlaNet Finance Deutschland e.V., umm@planetfinance.org