

African Microfinance Pricing Transparency Leadership Forum Discussion Insights: Stakeholder Roles & Responsibilities

The African Microfinance Pricing Transparency Leadership Forum, which took place in Nairobi in October 2011, gathered representatives of 24 different African countries as well as industry experts from other regions around the world. More than 120 participants, primarily policymakers, regulators and microfinance institution (MFI) network representatives, tackled some of the most complex issues that the microfinance industry faces in facilitating transparent pricing.

The African Microfinance Pricing Transparency Leadership Forum brought together a range of different stakeholder groups in the microfinance markets of Africa, including regulators and policymakers, networks and consumer protection agencies and technical assistance providers and experts. Given this diverse group the Forum itself was based on the premise that meaningful discussion about pricing disclosure must include a range of stakeholder types. This underlying concept arose again and again as participants discussed a range of issues relating to pricing transparency facing the industry today.

The following resource provides an overview of some of the potential roles participants discussed for different stakeholder groups in the microfinance industry, as well as the relationships between them, in terms of facilitating transparent pricing.

Policymakers & Regulators

Primary Role

Policymakers and Regulators play a vital role in facilitating pricing disclosure within the microfinance industry. They can improve practices by designing and implementing policies that facilitate transparent pricing practices, pricing disclosure to clients, and the reporting and publishing of pricing information for the broad benefit of the industry in general.

Designing & Implementing Pricing Disclosure Policies

Forum participants agreed that policymakers and regulators of African microfinance markets should develop and implement policies that facilitate transparent pricing on three main levels:

1. Financial institutions practicing transparent pricing and using standardized pricing calculations internally,
2. Financial institutions disclosing pricing practices to clients, and
3. Financial institutions regularly reporting on pricing practices to the regulator, which should then be shared with the general public.



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Examples of policies that might facilitate this multi-level transparency include the banning of the use of flat interest rates, the implementation of an official pricing formula that requires the disclosure of effective rates and the development of mandatory loan documentation templates for disclosing prices to clients.

Delegating Supervision Responsibilities Among Various Entities

In order to effectively serve the roles outlined, many participants discussed the need for dividing the traditional regulatory bodies into specialized sub-agencies. For example, to enable a traditional supervisory department to effectively oversee operations of financial institutions it might make sense to develop a separate agency for consumer protection and market conduct. As an alternative, regulators and policymakers might consider delegating some responsibilities to microfinance networks. For example, networks could be tasked with supervising the financial institutions that are excluded from the regulatory framework, or perhaps the smaller, less developed organizations, such as non-profits or non-governmental organizations. Policymakers and regulators might also consider making membership of regulated institutions in the local network mandatory in order to facilitate this process and strengthen the overall effectiveness of networks and cohesion within the market.

Paradigm Shift

Participants questioned the traditional role of policymakers and regulators in concept as well as practice. Some delegates argued regulators must facilitate disclosure to clients and the general public. Therefore there should be greater standardization of disclosure formats, processes and educating the recipients of such information. One practical idea for facilitating this shift was to incorporate a market conduct module into the traditional regulator’s audit. By making a change like this the regulator sends a strong message about the importance of not only sound financial practice but responsible, transparent, client-focused practice as well.

Relationships with Other Stakeholders

In addition to the role played by regulatory agencies directly, participants discussed ways in which they should interact with other industry stakeholders. In the table below, different stakeholder groups are specified in the left-hand column and possible relationships that each can have with policymakers and regulators are proposed in the right-hand column.



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Relationship Summary Table	
Stakeholder Group	Policymakers and regulators can...
Networks/Associations	Delegate some regulatory responsibilities, task with training MFIs for compliance
Financial Institutions	Listen to needs, Set disclosure guidelines, supervise, monitor and enforce as necessary
Media/Information Distribution Channels	Educate, ensure information reaches public
Investors & Donors	Enlist in the support of disclosure guidelines by asking donors to commit to only supporting institutions which are adhering to specific rules and regulations encouragement of policies, collaborate for donor-funded projects such as technical assistance and financial education,
Technical Assistance (TA) Providers, Experts and Industry Support Organizations	Request that they build capacity of MFIs' ability to comply, receive TA, work with policy experts to craft good policies
Industry Peers	Exchange experiences, share information

Networks & Associations

Primary Role

Forum participants, many of whom represented MFI networks and associations, identified the main role of this stakeholder group as conducting discussion among their members to develop standards for pricing disclosure, acting as a liaison between their membership and the regulatory agencies and identify capacity needs among members to coordinate the process of acquiring technical assistance.

Codes of Conduct

Forum participants discussed the idea that the role of networks in terms of facilitating pricing transparency might be done effectively through the development and maintenance of codes of conduct that among members stipulate standards for pricing disclosure. These types of official agreements ensure that the expectations of members are clearly specified and understood and that all members have officially agreed to commit to certain standards. One idea discussed by participants was having networks maintain codes of conduct that the regulators can use as a benchmark for proper behavior.



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Facilitate Self-Regulation

As mentioned in the previous section, participants also discussed the idea of regulators delegating some responsibilities to networks, particularly in supervising conduct among officially unregulated institution types and possibly by supporting official pricing disclosure regulation among remote or undeveloped institutions where networks may have more influence and reach than the regulators themselves. A new BCEAO law requires all MFIs in WAEMU microfinance markets to join the national MFI network. This legitimizes the network, positioning them to support the regulator in activities such as pricing data collection, for example. Underlying the discussion of these ideas was one clear point: in order to maximize the effectiveness of networks and associations, other industry stakeholders must collaborate to build the capacity of these institutions.

Administrators of Financial Education Programs

One potential role that participants discussed for networks was taking the lead in promoting client financial education about pricing. This could include a number of activities such as conducting baseline studies to identify client financial education levels, administering government-mandated and/or designed client financial education programs or coordinating with donors and technical assistance providers to develop and implement client financial education programs. Some participants believed that this role might better fall to consumer protection agencies or specialized NGOs, but regardless of the primary leader of these activities most agreed that networks have an important role to play as the voice of the industry and hub for information dissemination.

Relationships with Other Stakeholders

In addition to the role played by networks directly, participants discussed ways in which they should interact with other industry stakeholders. In the table below, different stakeholder groups are specified in the left-hand column and possible relationships that each can have with networks and associations are proposed in the right-hand column.

Relationship Summary Table	
Stakeholder Group	Networks and associations can...
Policymakers and Regulators	Help implement policy, communicate perspective of members, facilitate self-regulation
Financial Institutions	Help comply with policy, provide TA, communicate perspective to policymakers/regulators
Media/Information Distribution Channels	Help educate about pricing
Investors & Donors	Educate about market and their potential role
Technical Assistance Providers, Experts and Industry Support Organizations	Coordinate to provide TA to members, financial education programs
Industry Peers	Exchange experiences, share info, ask questions



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Financial Institutions

Primary Role

As the organizations actually charging the prices, Forum participants agreed that the main role that financial institutions in the microfinance market play in facilitating transparent pricing is to practice responsible pricing, disclose prices to their clients and comply with the pricing disclosure standards required in the regulatory framework.

Self-regulation

Forum participants discussed the idea of self-regulation by MFIs at length. Should the pricing practices of financial institutions in the microfinance market be regulated by official external regulatory bodies or should the industry itself set standards for transparent pricing? The delegates did not reach a consensus but they did identify some important aspects of this question.

Some arguments in favor of self-regulation included the idea that voluntary, unified adoption of standards for pricing in the microfinance industry increases trust between market players and also clients, as the interests of all parties are seen to be taken into account. This might reduce the practice of institutions' cheating clients if it is seen that strong responsible practices are in place.

Arguments against self-regulation included the idea that enforcement is difficult, and that a third party agency is needed for this. In addition some delegates raised questions about the ability to verify pricing data reported and published by industry bodies themselves. In addition, without a legal framework for pricing disclosure some feared that there would be a lack of clarity around what should be reported, particularly because institutional capacity for calculating pricing tends to be limited.

Despite disagreements on these points participants agreed on a basic level that the most effective way to facilitate transparent pricing is through a combination of self-regulation and external, official regulation. Therefore, institutions should play both the role of regulated and regulator in different ways.

Educating Clients

There was much discussion at the Forum about the role of MFIs in providing clients with financial education about the cost of borrowing. Some saw efforts by MFIs to publish and explain pricing information in their premises and brochures, as well as administer ongoing training programs to clients, as a laudable and important effort toward true client protection. However, some saw an inherent conflict of interest in MFIs providing client financial education, citing the impossibility of differentiating between advertising and true education. Education programs can also often be a drain on the financial and human resources of MFIs operating on tight budgets. The ultimate consensus was that while MFIs are responsible for explaining pricing to clients as well as their responsibilities and rights, this should be supplemented by in-depth educational programs by third-parties.



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Relationships with Other Stakeholders

In addition to the role played by financial institutions directly, participants discussed ways in which they should interact with other industry stakeholders. In the table below, different stakeholder groups are specified in the left-hand column and possible relationships that each can have with financial institutions are proposed in the right-hand column.

Summary Table	
Stakeholder Group	Financial institutions can...
Policymakers and Regulators	Comply with policies, report, express challenges/perspective
Networks/Associations	Report as necessary, contribute to building standards, comply with code of conduct
Media/Information Distribution Channels	Educate about pricing
Investors & Donors	Be transparent about pricing
Technical Assistance Providers, Experts and Industry Support Organizations	Receive training on implementing transparent practices and compliance with policies
Industry Peers	Exchange experiences, share info, ask questions

Investors & Donors

Primary Role

Delegates to the Forum agreed that the primary roles that investors and donors can play to facilitate transparent pricing are to finance microfinance service providers that practice transparent pricing, require partners to adhere to pricing disclosure policies and provide support to enable partners to adopt and maintain responsible practices.

Specific Role of Donors

As funders that do not seek a financial return, delegates to the Forum discussed ways that donors could help facilitate transparent pricing by funding activities that do not fall within the core mandate of other stakeholder groups and would place untenable resource constraints on them as well. For example, donors could potentially fund client financial education programs focused on pricing. They could also finance the provision of capacity building services to MFIs, networks and even regulators to enhance understanding of pricing calculations and the ability to implement standards for pricing transparency.

Specific Role of Investors

As funders applying a more commercial approach to supporting the microfinance industry, Forum participants discussed ways for investors in MFIs to use their influence to facilitate transparent pricing. For example, investors ensure that they only invest in institutions complying with pricing disclosure policies and verifying as part of due diligence. In addition, they can collect pricing information for their MFI partners and check it against the same information published by regulatory authorities to ensure consistency.



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Relationships with Other Stakeholders

In addition to the role and responsibility played by investors and donors directly, participants discussed ways in which they should interact with other industry stakeholders. In the table below, different stakeholder groups are specified in the left-hand column and possible relationships that each can have with investors and donors are proposed in the right-hand column.

Relationship Summary Table	
Stakeholder Group	Investors and donors can...
Financial Institutions	Encourage transparent pricing practices, only invest in institutions following disclosure guidelines
Policymakers and Regulators	Support policies by requiring same info from partners
Networks/Associations	Support standards by requiring same info from partners
Media/Information Distribution Channels	Educate about pricing
Technical Assistance Providers, Experts and Industry Support Organizations	Finance and receive training and financial education programs
Industry Peers	Exchange info to verify pricing info

Industry Support Organizations

Primary Role

Industry support organizations come in many forms, including technical assistance providers, research institutes and experts and NGOs specialized in a number of specific areas. In general, their primary role in facilitating pricing transparency is to provide expertise and advisory services to stakeholder groups in their given area of focus.

Services for Different Stakeholder Groups

There is a great need among all microfinance industry stakeholder groups for capacity building and training on pricing calculation and disclosure practices. For MFIs, training is needed on calculating prices, effectively disclosing prices to clients and ensuring understanding among MFIs of pricing disclosure policies. Direct technical assistance providers like MFTransparency are well-placed to play this role. On the level of regulators and policymakers, industry support organizations should also provide education on the reality of pricing in microfinance to better inform their process for developing appropriate standards for disclosure. Policy experts such as the Alliance for Financial Inclusion (AFI) work closely with policymakers and regulators to develop this knowledge. If the full potential of networks in terms of facilitating transparent pricing practices is to be realized, especially if regulators and policymakers allocate additional responsibilities to them as suggested in previous sections, these organizations will also need training and education. Regional networks such as the African Microfinance Network (AFMIN) could work with specialized TA providers to develop training programs for national networks. On the client level, industry organizations focused on financial education should be contracted as experts in developing programs to educate borrowers on understanding pricing.



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Compliance with Pricing Disclosure Policy

In addition to training and TA, industry support organizations could play a role in supporting the adoption of new pricing disclosure policy among MFIs. In many cases new policies are slow to be recognized because MFIs do not understand them or do not have the capacity to adjust their methodology to comply. In these cases, industry support organizations could provide software and tools for calculating loan prices that would make the process for MFIs to comply with reporting requirements significantly easier. This would ideally be done in conjunction with regulators and policymakers but TA providers, software developers or specialized NGOs addressing this need could work directly with MFIs as well.

Relationships with Other Stakeholders

In addition to the role and responsibility played by industry support organizations directly, participants discussed ways in which they should interact with other industry stakeholders. In the table below, different stakeholder groups are specified in the left-hand column and possible relationships that each can have with industry support organizations are proposed in the right-hand column.

Relationship Summary Table	
Stakeholder Group	Industry support organizations can...
Financial Institutions	Provide training and capacity building to comply to policies and implement transparent pricing practices
Policymakers and Regulators	Provide expertise in policy development/design
Networks/Associations	Partner to deliver TA to MFIs
Media/Information Distribution Channels	Educate about pricing
Investors & Donors	Partner to identify need and design programs for TA and capacity building
Industry Peers	Partner to design holistic packages of services for industry

Conclusions

Forum participants expressed that facilitating pricing transparency is an industry wide effort that will require the engagement of all stakeholder groups to be effective. In addition, each stakeholder group stands to benefit from transparent pricing so incentives are well-aligned.

Though not discussed explicitly as a separate stakeholder group, the role of the media and other information sharing agencies arose frequently during participants’ discussions of different themes of pricing transparency. In particular because pricing is a sensitive and often misunderstood issue, the media can be a powerful tool for disseminating the right messages about transparent pricing. It is clear that this group must be engaged as the microfinance industry as a whole moves forward toward transparency, and all stakeholder groups have a role to play in ensuring that their role in this process is informed and constructive.



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Finally, one of the most important themes discussed throughout the Forum was the concept of cross-learning and sharing among the counterparts of each stakeholder groups in different countries. Cohesion and communication within national microfinance markets is essential for building transparent practices, but there is much to be learned across borders as well. Microfinance markets throughout Africa are all facing some of the same challenges in facilitating pricing transparency, though at different stages, in different contexts and with different experiences. One of the most valuable tools in making the development toward pricing transparency efficient, effective and sustainable is peer exchange.



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