Kenya Data Launch Webinar

MicroFinance Transparency
June 29, 2010

mftransparency.org

Agenda

1. Transparent pricing in microfinance
2. MF*Transparency*'s Role in Facilitating Transparent Pricing
3. Kenya APR Quiz
4. Kenya Data Launch

The Role of Transparency in the Health of an Industry

- MFIs sell products
- Products have prices
- Micro-credit prices are extremely confusing
- If buyers don't know true prices, the market doesn't work
- If buyers get abused, microfinance becomes a tarnished industry
- Transparent pricing protects the poor and protects the microfinance industry

Transparent Pricing

- Price paid by the customer is different from the interest rates publicized
  - Interest methods, period, fees, security deposits, etc, all impact the final price
- Very few people – including within MFIs – know the real price
- Non-transparent prices causes concern and breeds suspicion about real prices

Truth-in-Lending Practice

1. Compute the real price paid by the customer and express it as an Annual Percentage Rate
2. This provides a uniform basis for understanding and comparison across all products of any MFI and all MFIs.

Who Benefits from Pricing Transparency?

- Consumers:
  - They get to know the real price – they can decide whether they want to borrow
  - They can decide between competing loan products or MFIs based on comparative data
- MFIs
  - They learn what the market price is, where they stand, and can take steps to refine their pricing strategy
- Industry
  - MF sector provided with a database that can be used to address issues and policy

Who Benefits from Pricing Transparency?

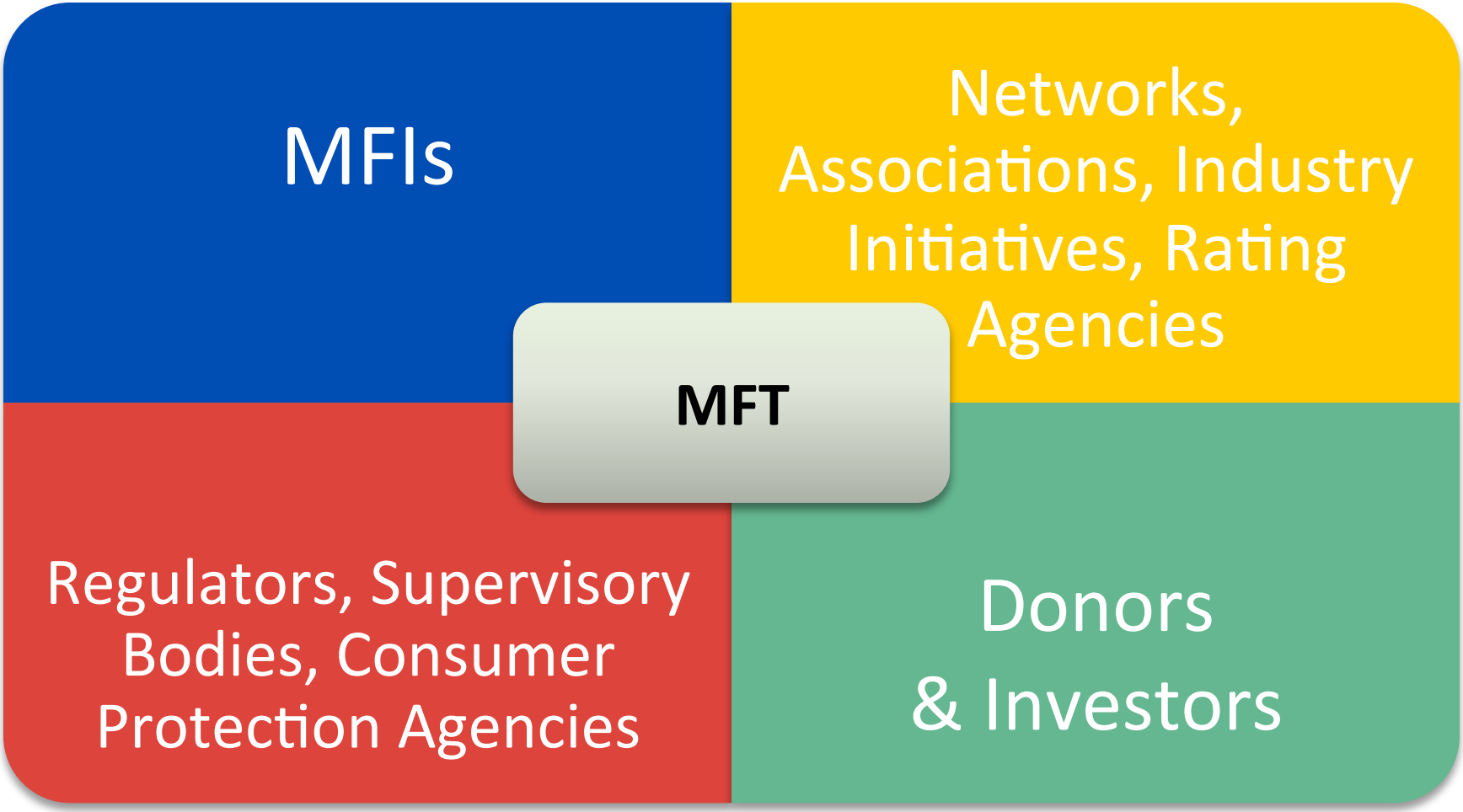
- Funders and donors
  - They know what their client MFIs charge customers, and can choose their partners accordingly
- Regulators
  - Observe the prices prevailing in the market, sharpening their ability to intervene specifically and refine policy

The Role of MF*Transparency* in Facilitating Transparent Pricing

How to achieve Responsible Finance? MFT's Business Model

1. Collect and publish accurate, transparent pricing data
2. Consult on legislation & regulation
3. Provide technical assistance & training to service providers
4. Promote consumer awareness, produce "financial literacy" materials

MFT Works with all Industry Stakeholders



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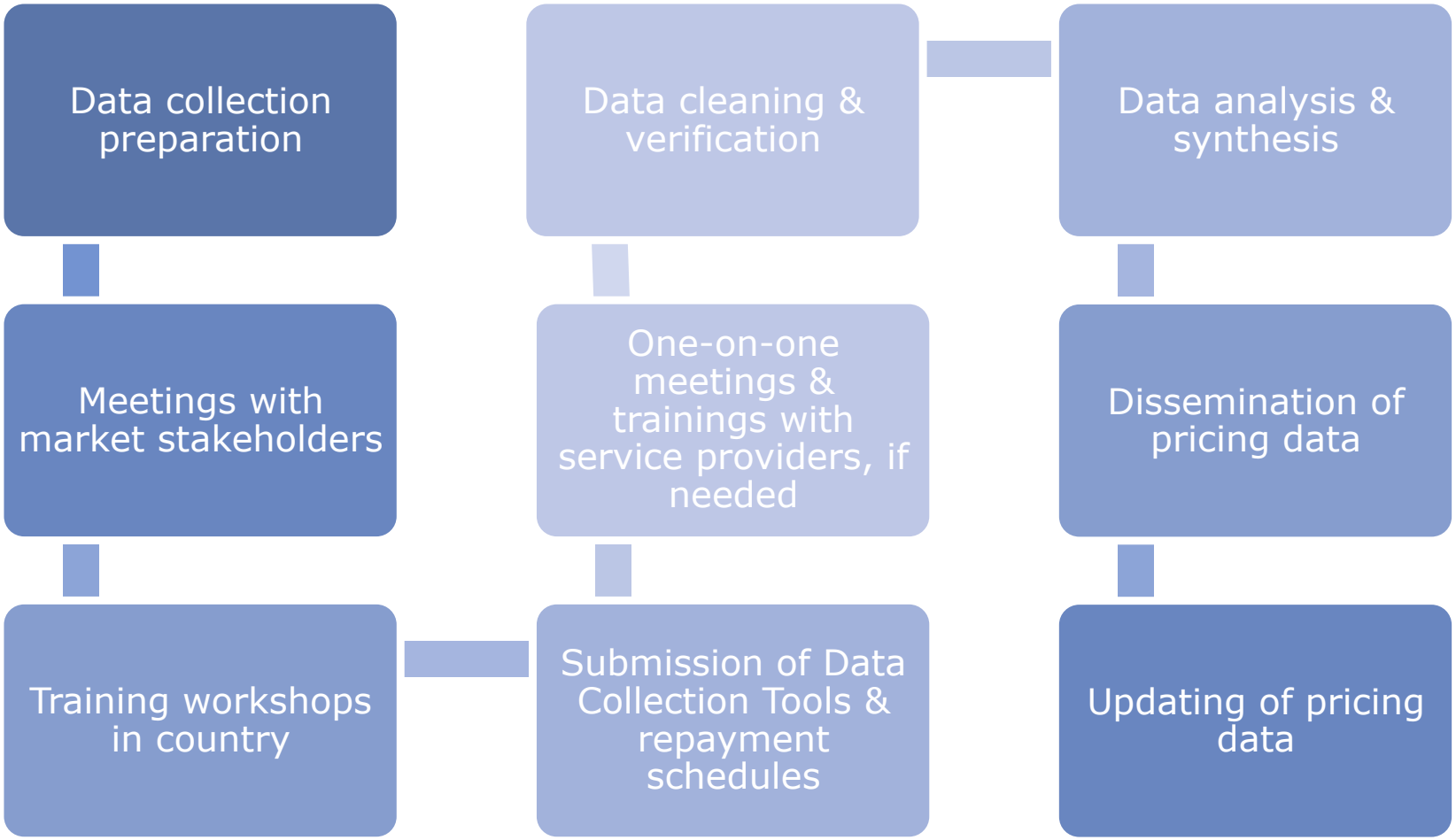
How does MFT work?



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Kenya Data Launch

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Quiz: Which Loan Costs the Most?

	Loan A	Loan B	Loan C
Amount	Ksh10,000	Ksh10,000	Ksh10,000
Rate	2%	0.5%	8%
Per	Monthly	Weekly	Annual
Type of Interest	Flat	Flat	Flat
Fees	Ksh1,000 up-front + Ksh30 each period	1% up-front	1.36% up-front
Term	3 Months	50 Weeks	12 Months
Pmt Frequency	Monthly	Weekly	Monthly
Comp. Savings	Ksh100 each period	50% up-front	none
Interest Paid on Savings	0.01%	none	none

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Term	3 Months	50 Weeks	12 Months
Pmt Frequency	Monthly	Weekly	Monthly
Comp. Savings	Ksh100 each period	50% up-front	none
APR	**105.34%** (106.73% with savings)	**49.84%** (188.2% with savings)	**16.70%**

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Kenya Data Submitted

- As of June 2010, 17 institutions have successfully completed the data submission process
- Data for 71 loan products were submitted
- We expect one more institution to be included in the database by the end of the week

Interview with Industry Stakeholders

Mr. Pieter-Bas Schrieken

Programme Officer Financial Services & Enterprise Development

Hivos

Log In English

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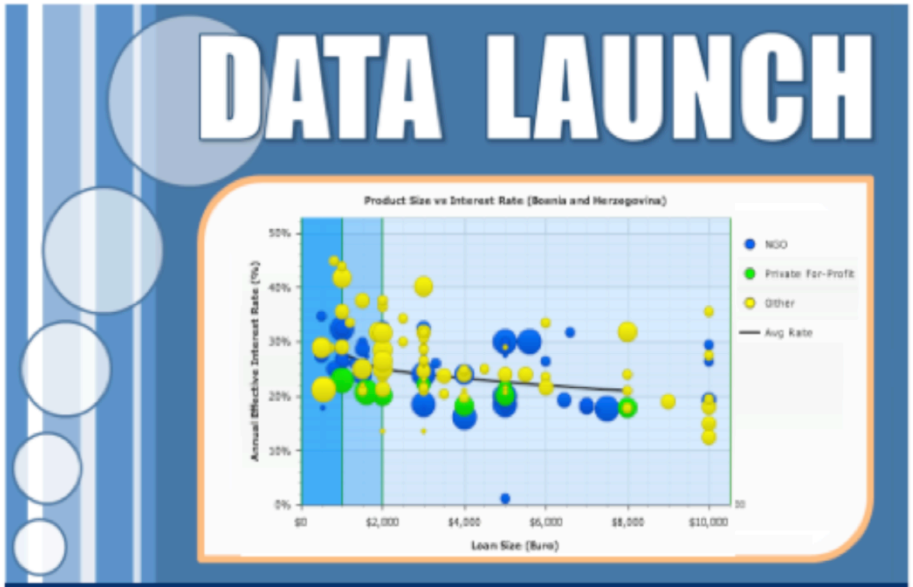
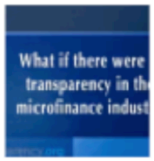


Data Launch
Cambodia data now available! **View Country Data**

Data Launch

Video:Why



Video:If Not

Video:What is

Featured Item: **APR Calculation Tool**

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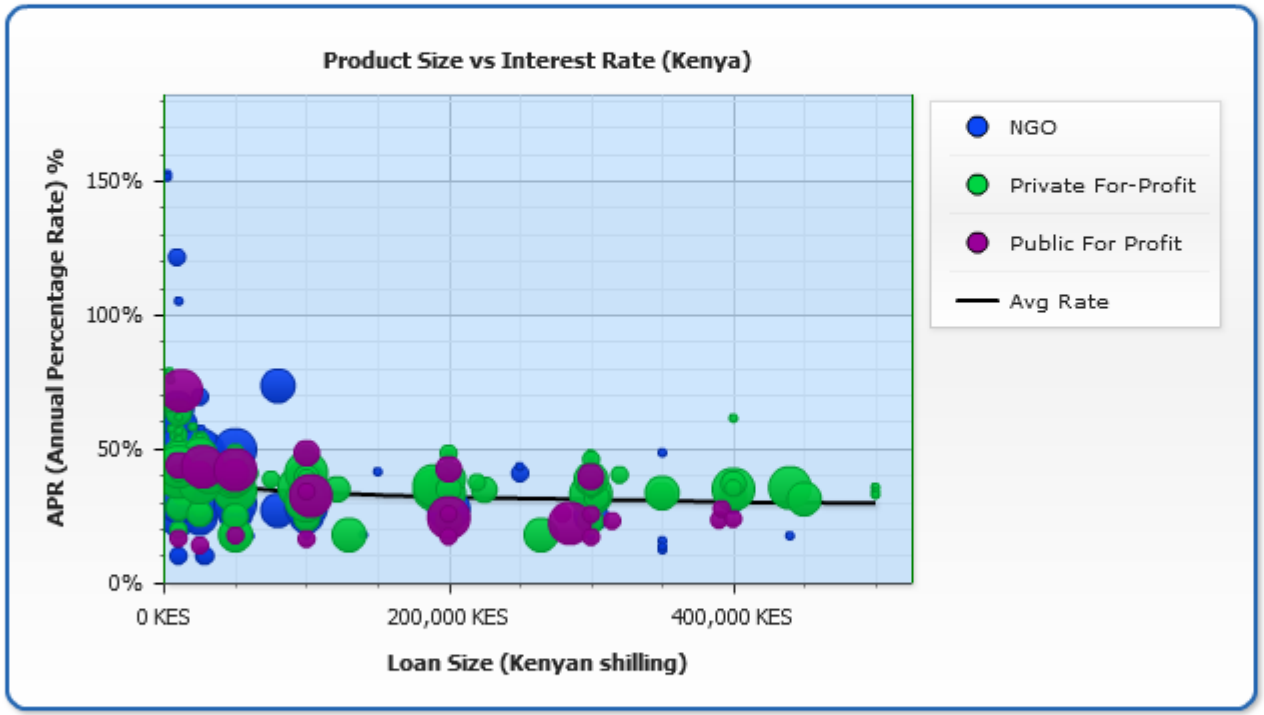
Our Purpose

MFTransparency is a global initiative for fair and transparent pricing in the Microfinance industry. Our desire is to be the venue for the Microfinance industry to publicly demonstrate its commitment to pricing transparency, integrity and poverty alleviation. Our vision is a Microfinance industry operating with healthy free market conditions where consumers and other

Interactive Graph

Kenya Data

About this graph



Filter Graph Results

Calculation Method:
- (•) APR
- ( ) EIR

Currency: Kenyan shilling

Loan Size: (currency)
From: To: 500000

Number of Clients*
From: To:

Loan Length (months)
From: To:

Purpose: --All Purposes--

Institution Type: --All MFIs--

Interest Rate Type: --All Interest Rate Types--

Interest Rate Range:
From: % To:
%

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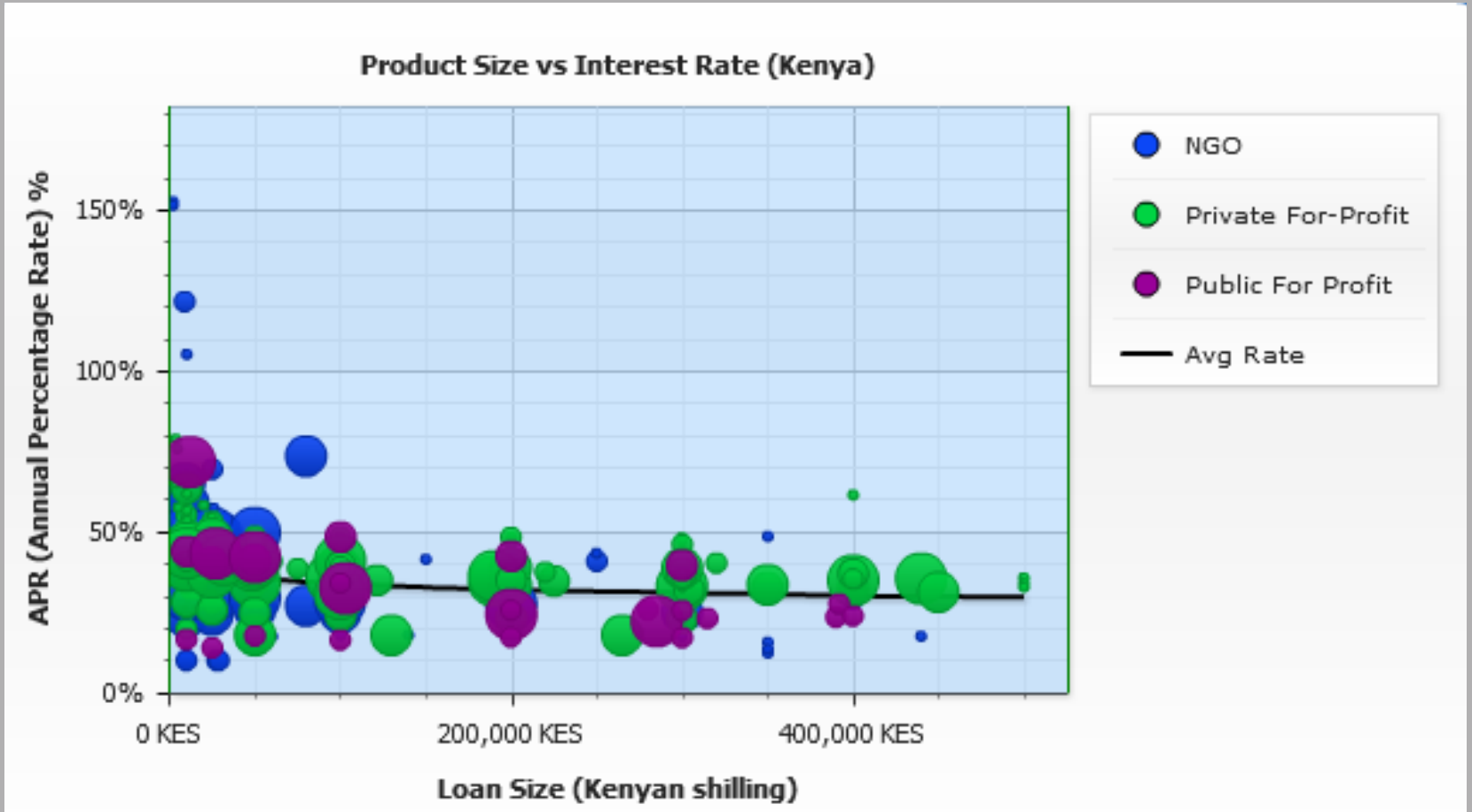
Kenya Data Observations



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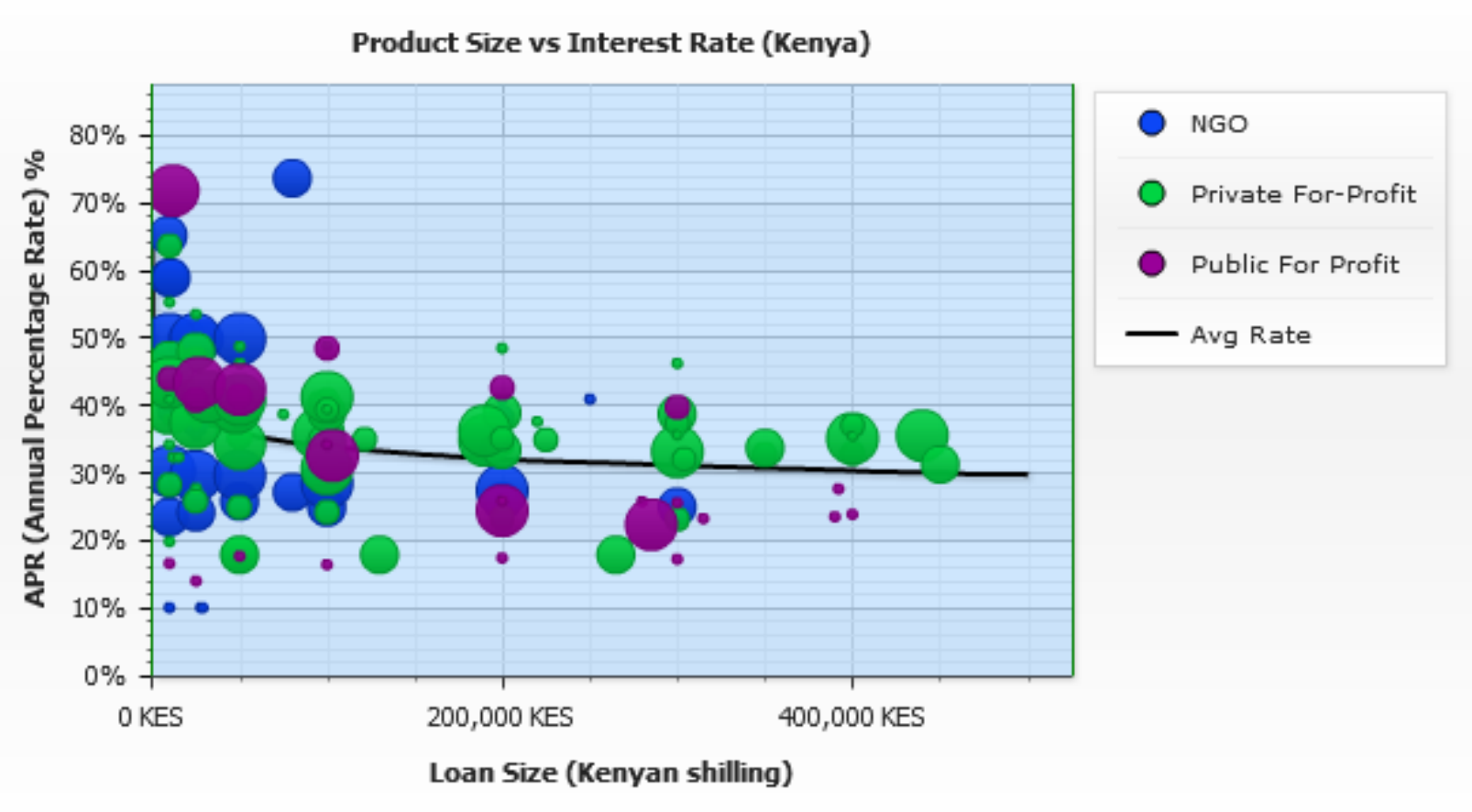
Products with Clients > 1,300



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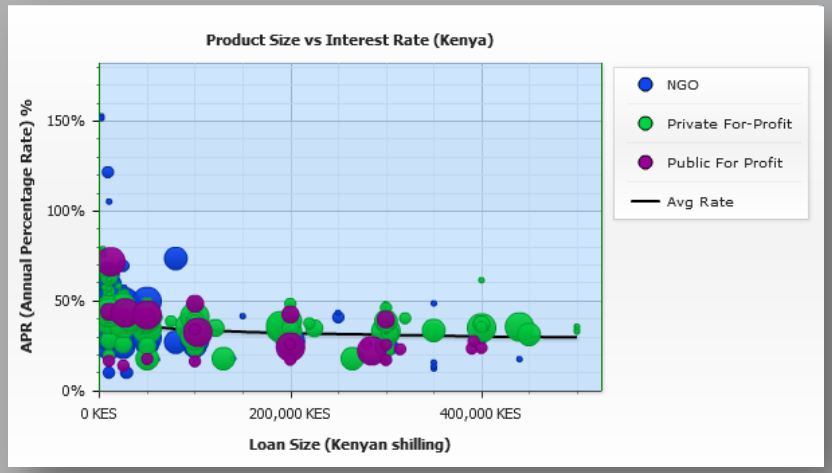
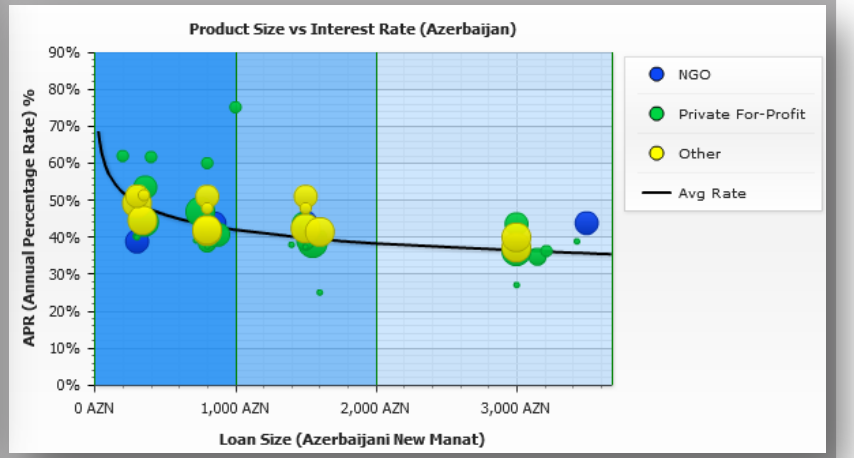
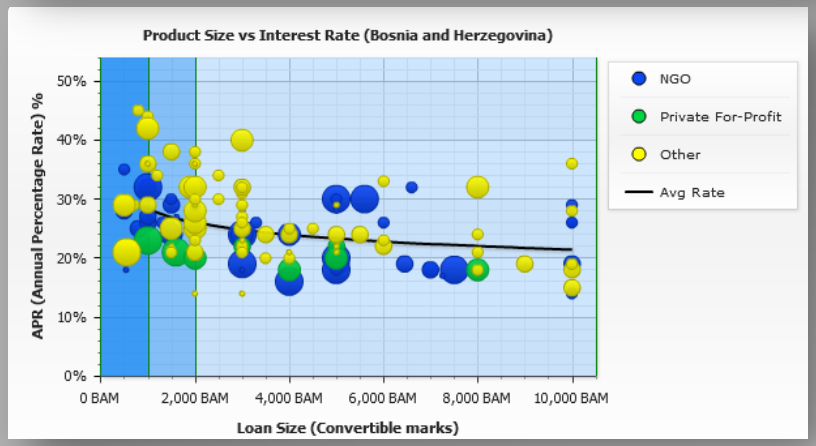
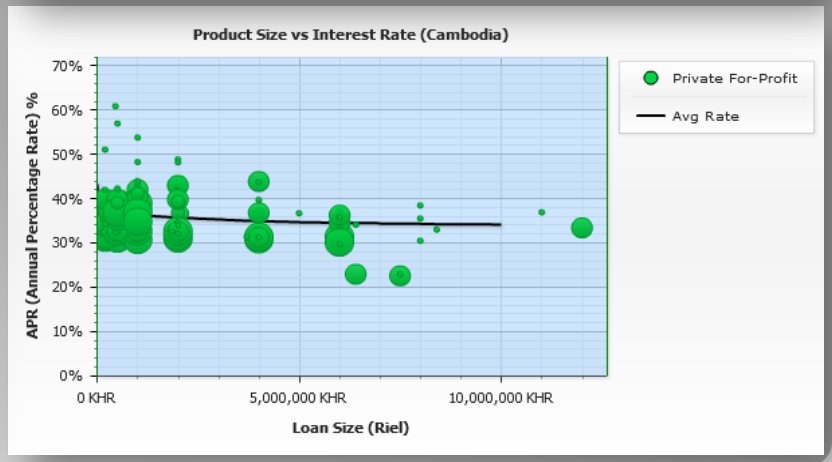
In Comparison with Other Markets









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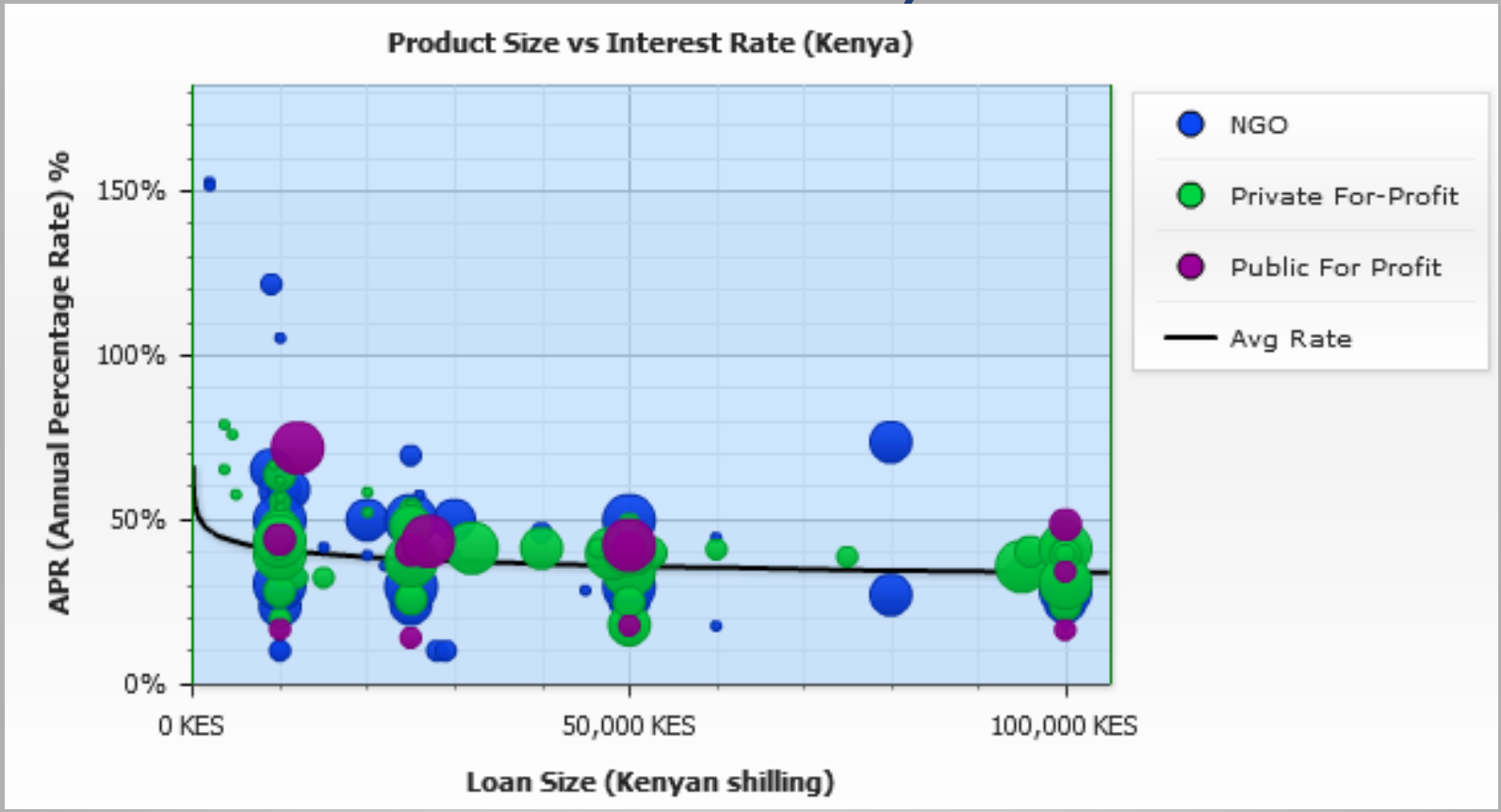
Products with Loan Sizes < 100,000 KES



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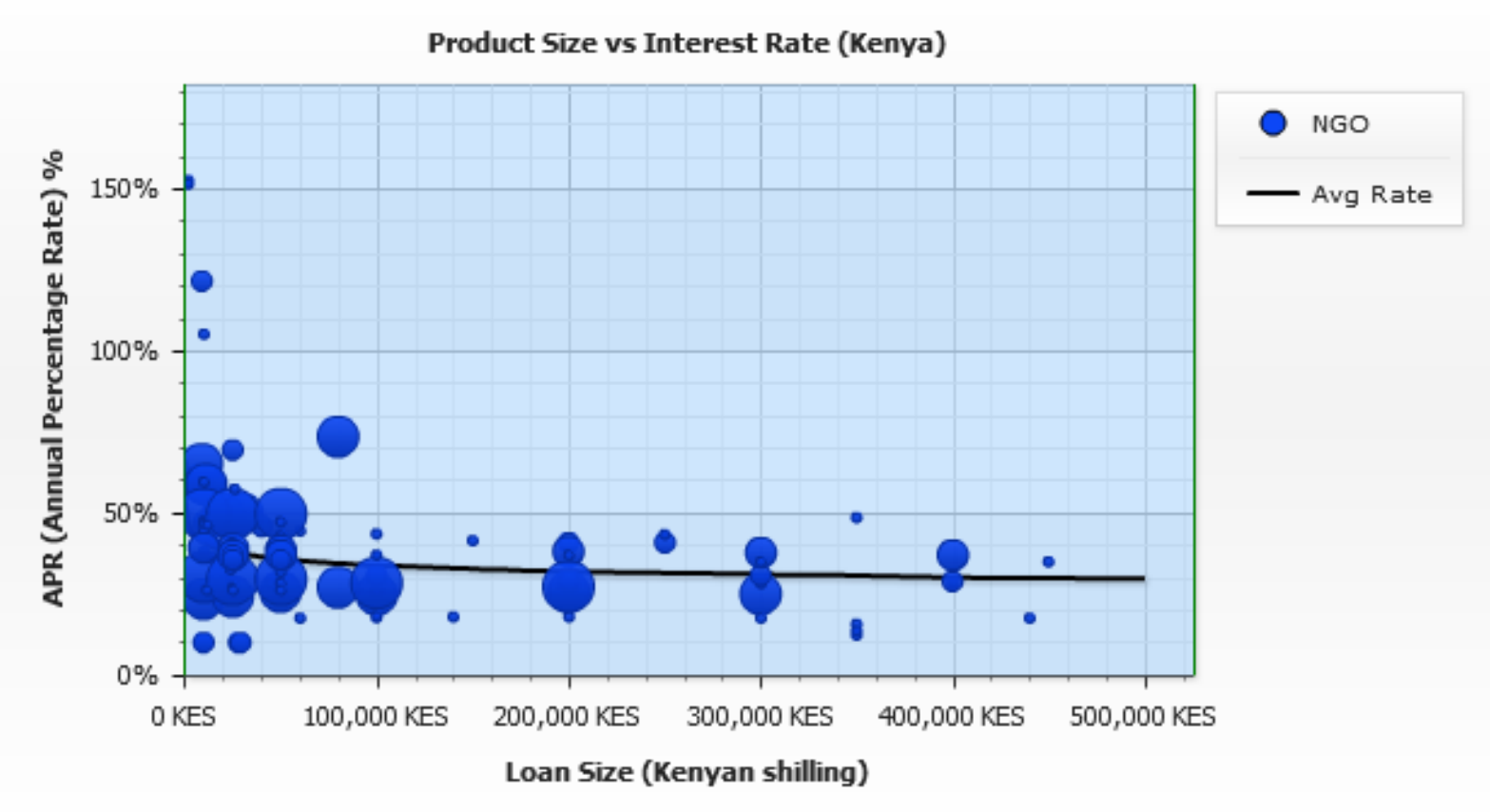
NGO MFIs



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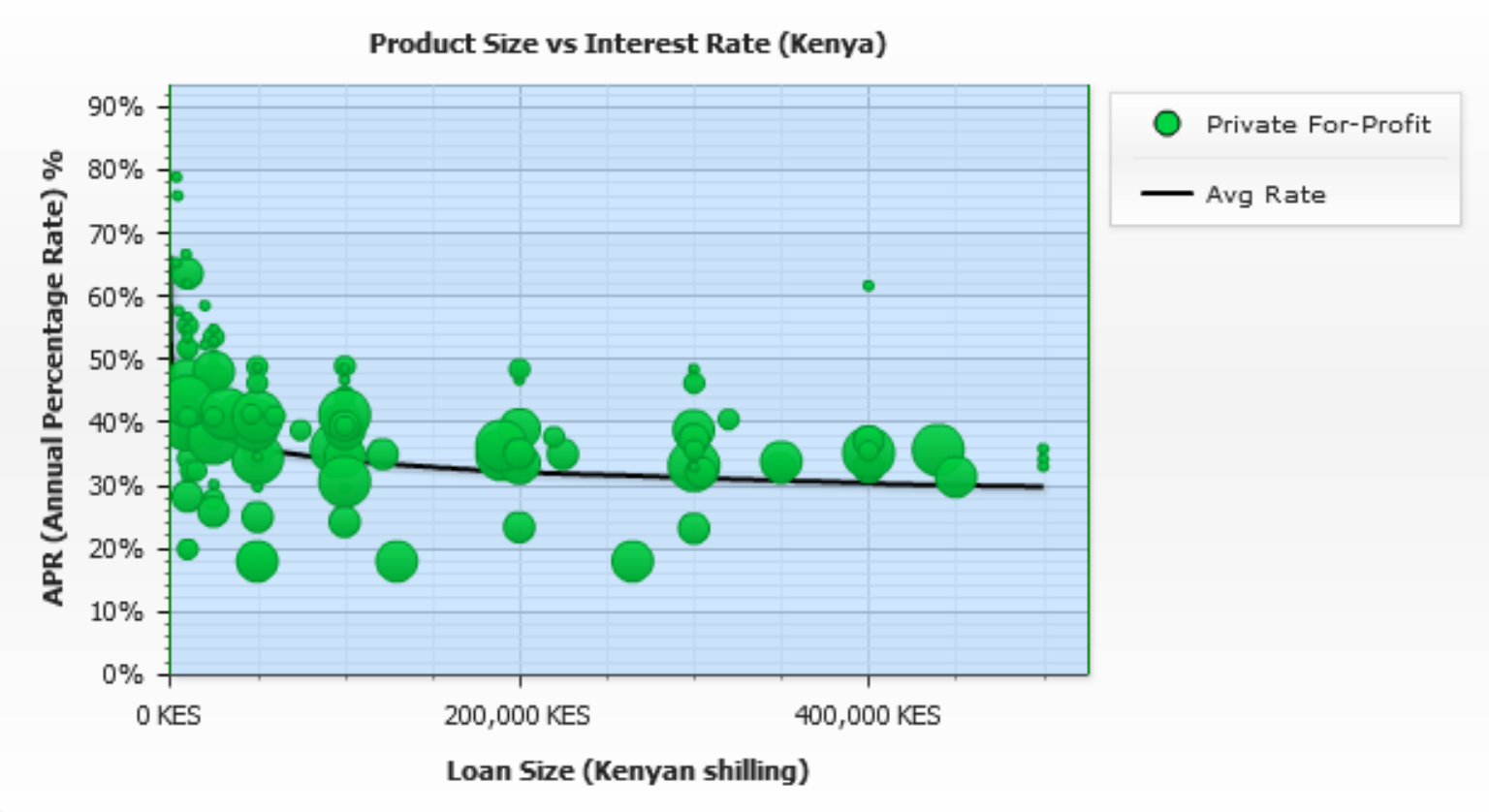
Privately-owned For Profit



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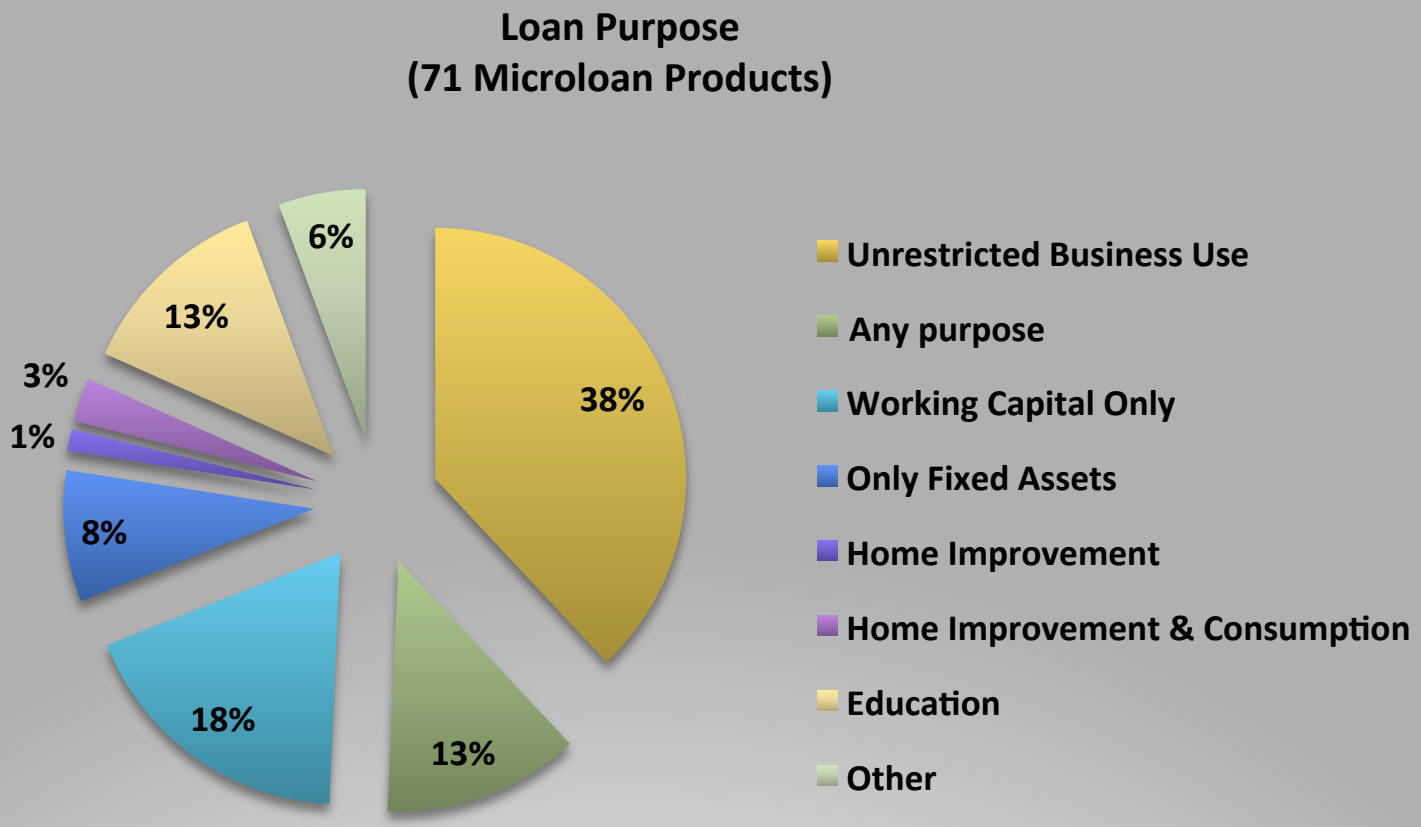
Most Products have a Business Purpose



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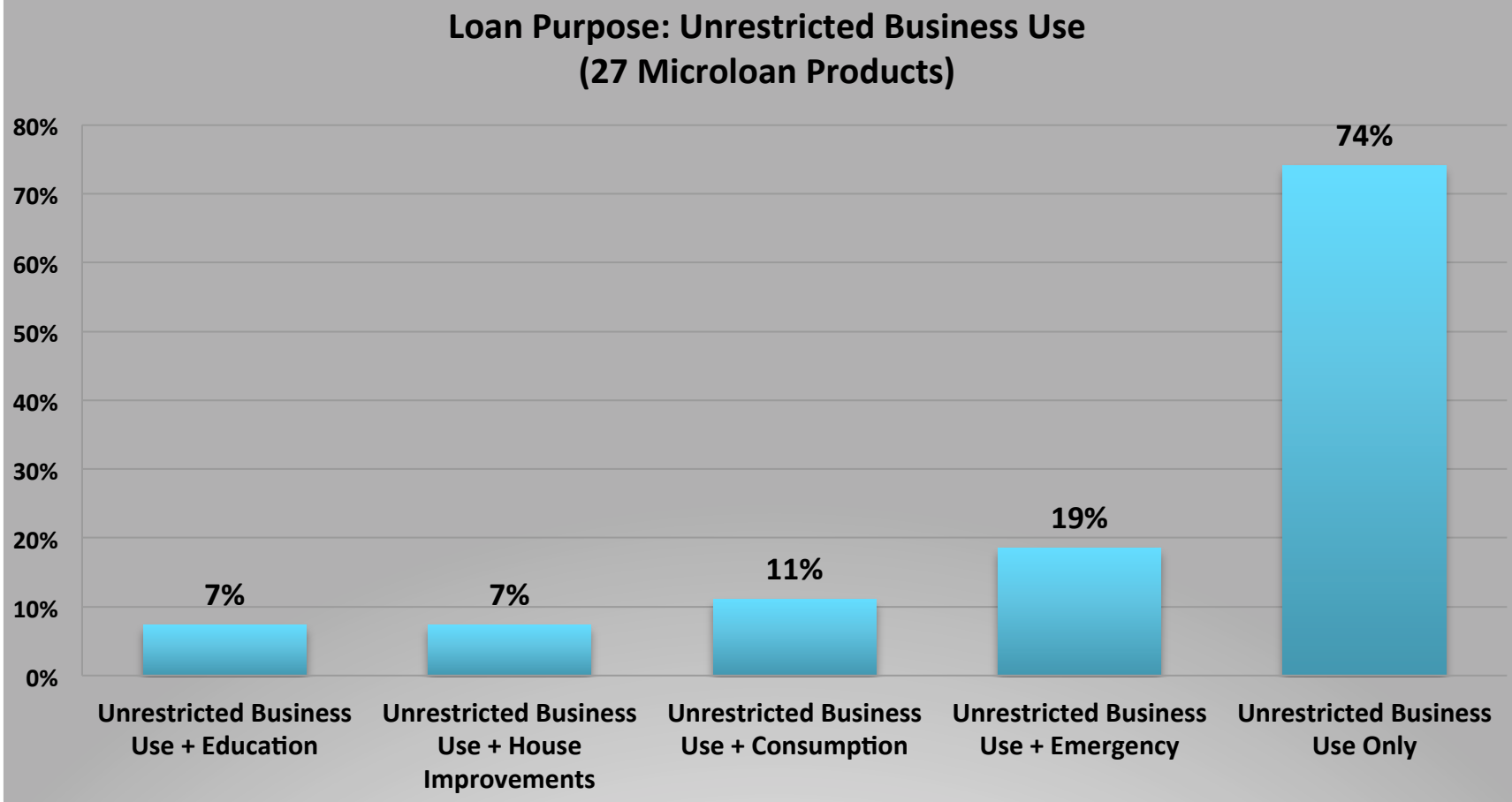

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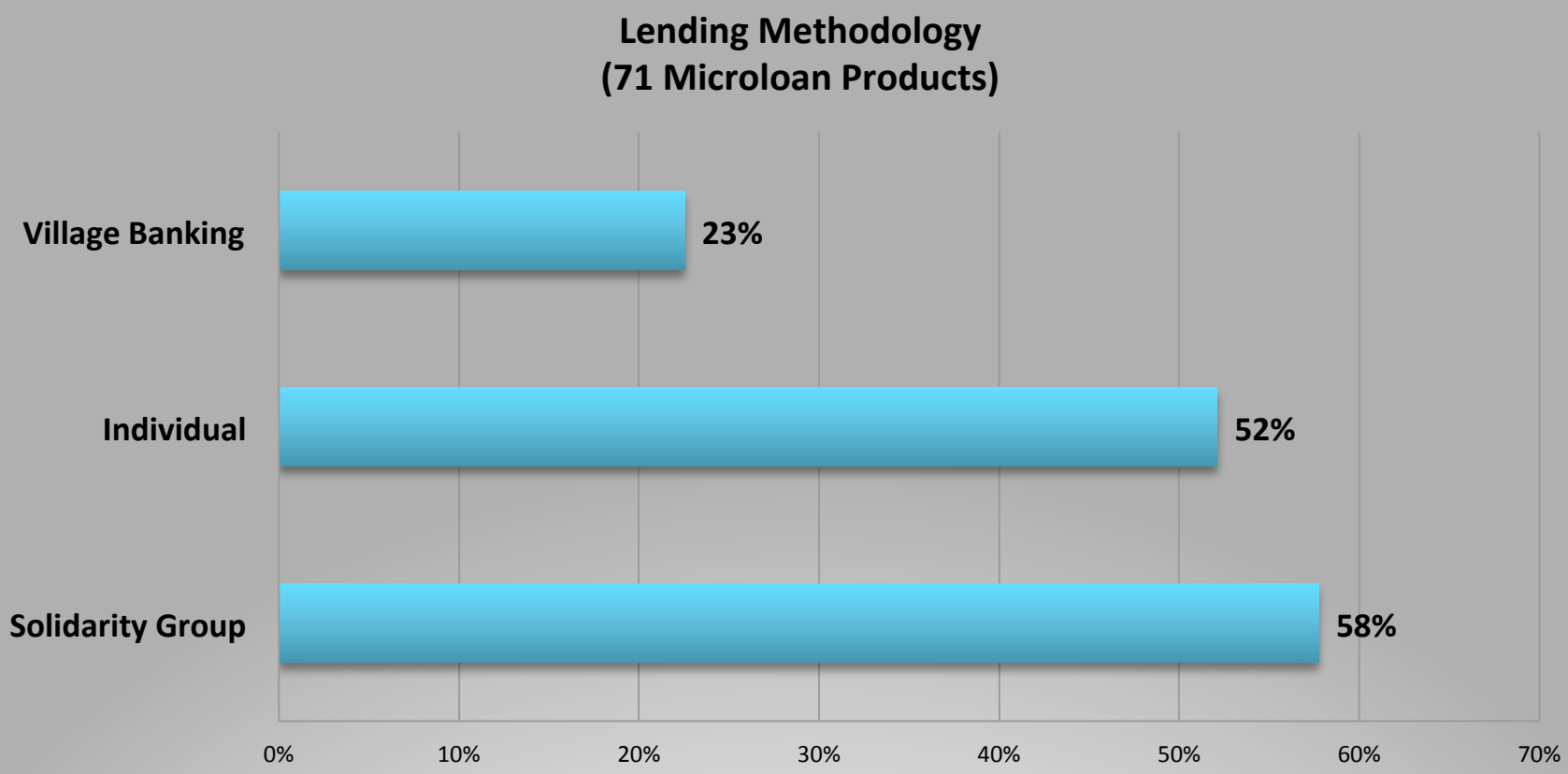
The Solidarity Group Lending Methodology Dominates



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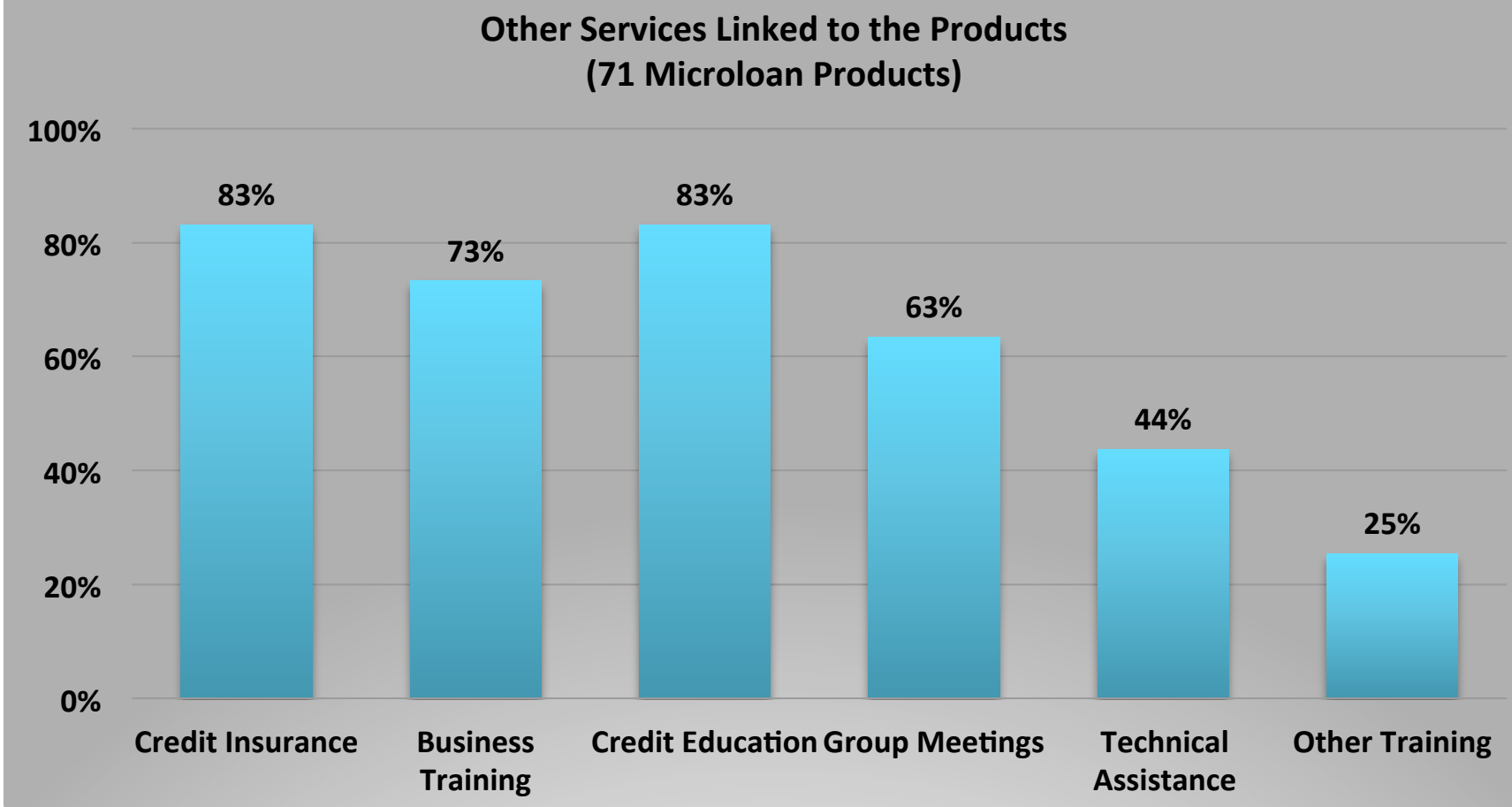
Other Services linked to the Product



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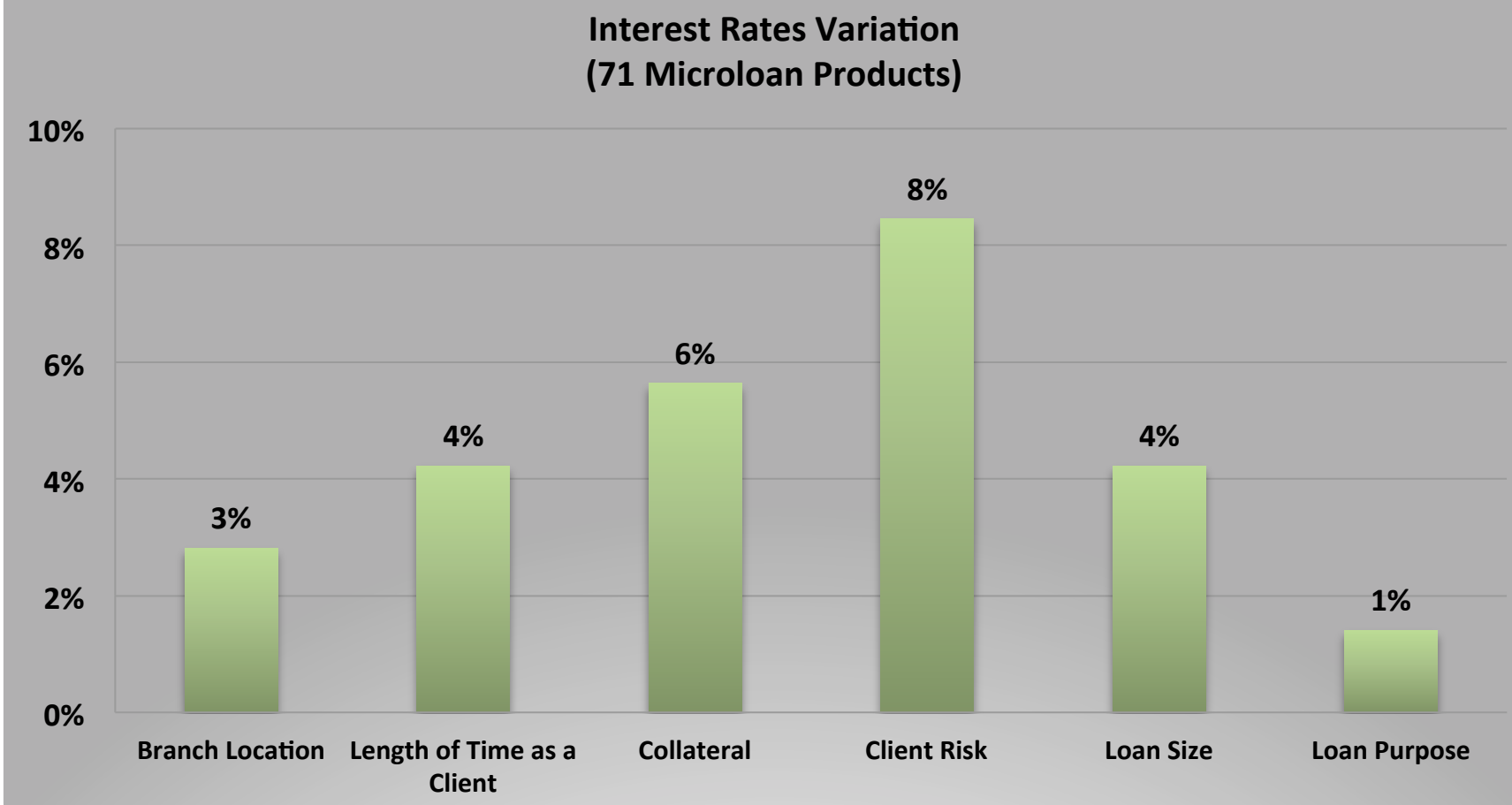
Pricing Practices: Interest Rate Variation



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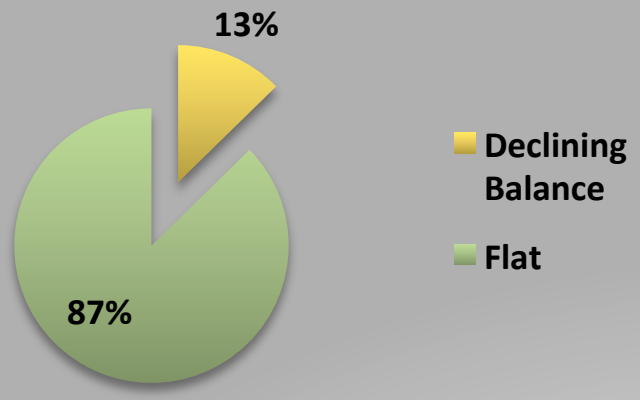
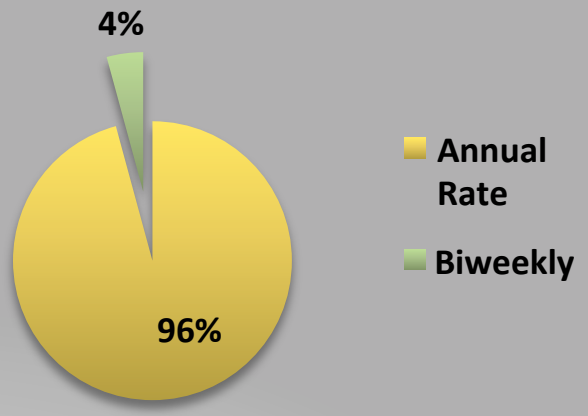
Pricing Practices

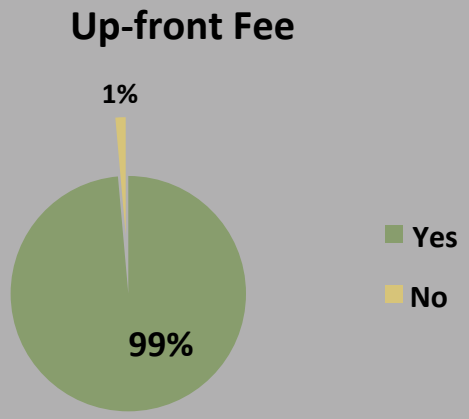
Interest Rate Methodology (71 Microloan Products)

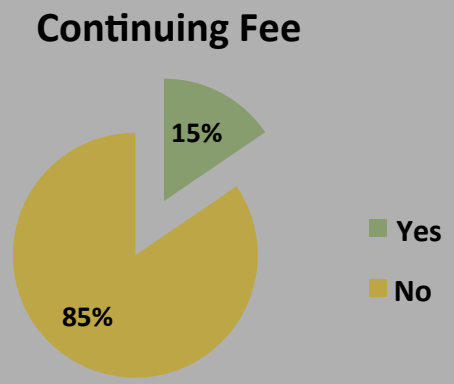


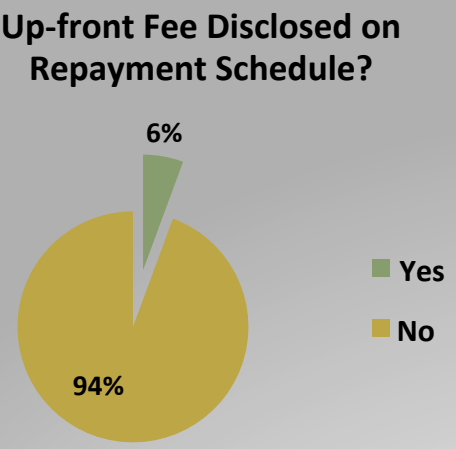
Interest Rate Quoted to the Client (Period)

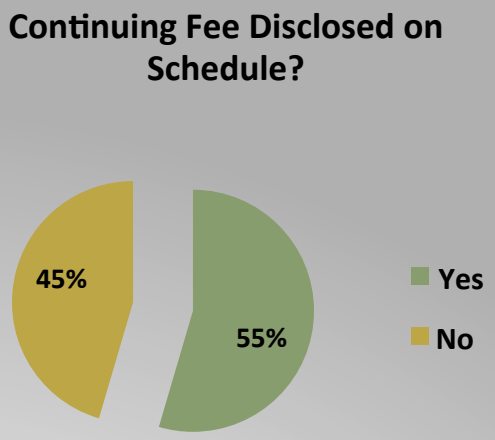


Fees are Very Common, but Rarely Disclosed on the Repayment Schedule









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Interview with Industry Stakeholders

Ms. Bilha Maina

Financial Education Partnership Project Manager

Financial Sector Deepening Kenya (FSDK)

Discussion Questions (I)

- How do banks and MFIs respond when asked to report their interest and fees publicly in a common APR or EIR format?
- How does the shape of the price curve for Kenya differ from other countries?
- In Bosnia and Cambodia we saw the expected relationship of average price of loans increasing as loan sizes got smaller:
  - Does the market in Kenya adhere to this same relationship?
  - What similarities and disparities can be drawn between Kenya and other markets?

Discussion Questions (II)

- What factors seem to be driving prices in Kenya?
- What are some common pricing practices in the Kenyan market and what are their implications for clients?
- How much variation is there in price on loans of similar size in the microfinance market of Kenya, and how might transparency change prices over time?
- How can the new pricing data be used to enact meaningful change in the local microfinance market?

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