

# **Advocating Transparent Pricing in Microfinance:**

## **A Review of MFTransparency's Work and a Proposed Future Path for the Industry**

Chuck Waterfield, CEO  
MicroFinance Transparency  
15 July 2015



*In gratitude for responding to my expressions of frustration and exhaustion with gentle support and tolerance, I dedicate this report to my wife, Sue, and to the MFT Board of Directors. There wouldn't have been eight years of MFT history to share if it weren't for them.*

## PREFACE

### OUR GOAL FOR THIS REPORT

MicroFinance Transparency (MFT) has had a complex history, and few in the industry know more than isolated pieces of that history. Most will know of the great wealth of pricing data MFT collected, creating a public database of true prices for the first time in industry history. Many will have attended our presentations and learned about the complex topic of the "pricing curve". Many will agree that in just the first two years of MFT's operations, the industry did a major reversal on tolerance of opaque pricing practices.

As such a small and new organization, how did MFT have so much influence in so little time? We weren't doing this alone. MFT proved to be a rallying point for thousands of people in the industry to express their concerns that we address the central issue of pricing and explore the link between non-transparent pricing and profits.

Despite successes, the work has not been easy. Many will know of the variety of challenges facing organizations like MFT who are working to collect "public good" microfinance information. Public information is useful, but it can't be monetized, and industry donors don't like providing long term subsidies to anything, even useful information. More important, though, is the challenge of persuading the MFIs to participate. The main dilemma with pricing transparency being a voluntary option can be described as "**I potentially suffer if I do, and I'm safe if I don't**". While national regulations can make transparency obligatory, self-regulation can do little more than encourage transparency, and in the seven years of operations we found many instances where MFIs could decline to be transparent on their prices and keep their stakeholder relationships intact.

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*The understanding of mathematics is necessary for a sound grasp of ethics.*

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Socrates

Despite broad-based industry support and many operational successes during the seven years of operations, in March 2015 the Board made the decision for MFT to cease operations. Though the board is quite confident that this is the appropriate decision, those in the industry question "*Why?*" as well as "*What does that mean for transparent pricing?*"

This report provides our answers to those questions by way of a chronology of MFT, describing success that exceeded expectations as well as perennial struggles. This is our only document in our seven years that provides this comprehensive perspective. Our goal is first to provide advice to other initiatives that may take up the cause of transparent pricing, and to strengthen the foundation upon which they would build their efforts, but as we will argue, *every* institution can study, analyze, and decide pricing policies independent of

broad-based industry pricing transparency. While transparency and responsible practice are compatible goals, transparency does not necessitate responsible practice. Responsible practice is a choice, and it can be achieved independently of broad, industry transparency.

Our position remains unchanged:

**The industry must commit to the principles that the prices we charge the poor should be transparently communicated, carefully deliberated, and thoughtfully examined from the perspective of the client's ability to pay, and not just their willingness to pay. Responsible businesses must be ethical businesses in practice and not just in words.**

I, Chuck Waterfield, am the sole author of this broad history. I am the Founder of the organization and served as its CEO for nearly its entire existence. Therefore, I suggest it is more transparent for me to express some of the material in this report using first person when appropriate. It reads less as a report in those sections, but it reads more transparently.

## SUGGESTIONS FOR READING THIS REPORT

This is a very long document, and recognizing that few will have the time or need to read all of it, it is structured such that each chapter covers a stage of MFTransparency's history and can be read independently of the other chapters. There is also a recap at the end of each chapter that highlights the key outputs and learnings, so you may choose to skim a chapter and read the recap to get most of the content. Where useful, each chapter contains links to related topics in the report. In addition, the document contains hundreds of hyperlinks to related materials on our website, [www.mftransparency.org](http://www.mftransparency.org), as well as websites of other organizations.

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*The opposite of good is not evil; the opposite of good is indifference. Few are guilty, but all are responsible.*

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Abraham Heschel

### 2007-08 — The Launch of MFTransparency

What motivated us to create MFTransparency? Why create an organization to try something that had never been done before? If you don't read this entire section, read the Ten Foundational Goals (see page 9) that are referred to throughout the document.

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**2009-11 — Phase I: Direct Data Collection**

This section gives an overview of the three operational phases used by MFT and provides an overview of how we started operations for the first three years, what worked well, and why, what surprises we encountered, and how we resolved them. This section also documents how, despite successful operations, MFT came very close to closing down twice due to financial and staffing issues.

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**2012-13 — Phase II: Sub-Contracted Data Collection**

Following the second crisis at the end of Phase I, MFTransparency communicated to the industry that we were closing. Numerous industry members rallied to help us find a new approach to continue operations by subcontracting other organizations to do data collection. However, we found increasing resistance of MFIs to participate, and we found the cost of collecting refreshed data from MFIs who were already published to be prohibitively expensive. We again faced a situation which required a major change in strategy.

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**2013 — Strategic Planning: Is there a Path Forward for MFT?**

With the approach of our five-year anniversary and concurrent with Phase II operations, MFT prepared a thorough assessment of our position in the industry, our progress on the ten goals, and our potential to generate revenue to replace grant funding. The analysis, combined with the challenges faced in Phase II, led MFT to propose one last option to the industry – pricing data collection should be a collaborative effort.

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**2014 — Phase III: Collaborative Data Collection**

MFT contacted over 40 funders, networks, and analyst organizations, proposing that they all participate in collecting pricing data and pooling it, and we received strong support for moving forward with a collaborative approach. MFT received funding and grouped 10 organizations to participate in a pilot. However, all of the partners found significant internal and external challenges in collecting the data, and the pilot failed.

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**2015 — MFTransparency Decides to Cease Operations**

MFT had tried three approaches, and none were viable in any way that would include MFT's involvement. This short section summarizes MFT's decision to cease operations and provides answers to the most frequently asked questions.

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**2015 and Beyond — Next Steps for Transparent and Balanced Pricing**

This final section outlines MFT's proposal for the industry to continue collecting and analyzing pricing data, including means by which there may be less transparency of prices but that pricing data is still used for internal decisions by stakeholders. It describes the tools MFTransparency has developed and left for the industry to use, including a new methodology for how to evaluate Balanced Pricing.

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## 2007-08 — THE LAUNCH OF MFTRANSPARENCY

Reluctantly creating an organization to challenge the long-held industry practice of hiding true prices

### Outline of Chapter

#### 2007 — An Industry Crisis and the Ensuing Debate

- Apr The Compartamos IPO
- May Non-Transparent Pricing and the Price Curve
- Side box: Calculating Prices — APR and EIR
- Oct Plenary Debate at SEEP Annual Meeting

#### Jan-Jul 2008 The Decision to Launch MFTransparency

- Feb Opportunity Conference and Website Registration
- Mar Incorporation of MFTransparency
- Apr-Jul Decision to Launch MFT at Bali Micro Credit Summit

#### Aug-Dec 2008 Groundwork prior to starting operations

- The concept of transparency, and why start with prices?
- Side box: What is transparency?
- Defining our Ten Foundational Goals
- Starting the design of the website
- Initial fundraising efforts
- Defining and calculating true prices
- Side box: Why did microfinance start hiding prices?
- Coordination with the Pocantico Declaration and the Smart Campaign
- MFT enters a holding pattern

## 2007 — AN INDUSTRY CRISIS AND THE ENSUING DEBATE

The best place to set the context for the story of MicroFinance Transparency is October 2006. For decades, microfinance had been a rather obscure industry, unknown to the general public. When family, friends, and new acquaintances asked what we did for a career, we were accustomed to explaining the strange but exciting concept of helping people in poverty by lending them money and then explaining why it was different than predatory lending. That changed when the 2006 Nobel Peace Prize was awarded to Grameen Bank and

its Founder, Muhammad Yunus. Overnight, microfinance became a well-known term. The media presented countless stories of our work, all in a positive light. Our industry was universally respected, but only briefly. Public impressions changed as another event soon made the news.

## April 2007 - The Compartamos IPO

Just six months after the Nobel Peace Prize, in April 2007, the media and public perceptions took a dramatic turn when a well-known member of the microfinance industry based in Mexico, [Banco Compartamos](#), sold a portion of their stock through an Initial Public Offering (IPO). Compartamos had made annual Returns on Equity of over 50% for each of the seven years leading up to the IPO. Few businesses of any kind generate profits like this, so the stock offering attracted the hedge fund industry (which bought two-thirds of the shares sold) and other investors looking primarily for maximum profits and having little or no interest in development goals. The opening price generated a market capitalization of over US\$2 billion for a business that had been started just seven years prior with US\$6 million, and the original shareholders received a 300-to-1 return on their initial investment. Unlike IPOs structured to raise capital for expansion, this IPO was entirely a cash-out IPO to allow investors to liquidate a portion of their holdings.

Huge IPOs do happen outside of microfinance without criticism from the public, but this one felt different. Compartamos' clients were almost entirely poor women, and the price charged on their loans was over 120% per year when calculated by the US Annual Percentage Rate (APR) method<sup>1</sup>. Six months earlier, the public had been told that microfinance was an alternative to exploitative debt, and a means for ethical organizations to help the poor and even "end world poverty." Now, seeing the rich getting even richer while charging such shocking prices to poor women raised doubts about the entire industry.

It was not just the public who were asking questions. An intense debate broke out inside the industry as well. In the 1990's, the industry had shifted from running "development projects" toward building "sustainable businesses". The rationale was that credit services could be designed to outlast temporary donor subsidies. To do so, Microfinance

Institutions (MFIs) were told to make delivery costs more efficient while also raising the prices we charged on our loans in order to

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*We created microcredit to fight the loan sharks; we didn't create microcredit to encourage new loan sharks. Microcredit should be seen as an opportunity to help people get out of poverty in a business way, but not as an opportunity to make money out of poor people.*

Muhammad Yunus, Founder, Grameen Bank; NY Times, 2010-04-14

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1. The price was 250% when calculated by the European Effective Interest Rate (EIR) method. One of the challenges for MFT was to teach the industry the different approaches to calculating a true price and to lead the industry to a standardized definition. See the sidebar on this topic on page 5 for more explanation. The MFT website also has numerous documents on this topic.

cover costs.<sup>2</sup> Few in the industry anticipated that our systematic work to advance what we called "sustainable business" practices would so quickly be taken to the extremes of profit maximizing behavior.

We debated whether the IPO went over the line, whether there should be limits to the amount of profit a balanced business should make, and whether the microfinance industry should be charging such high prices to the poor. Much of this discussion began and continued on the industry's global discussion group, [MicrofinancePractice](#), but it also received much attention at various conferences throughout the year.

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*"I'm in favor of profit, but I'm opposed to profiteering"*

*Suresh Gurumani, Managing Director, SKS India*

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## May 2007 — Non-Transparent Pricing and the Price Curve

I had been invited to give a plenary address at one of those conferences, [Opportunity International's](#) Global Conference to be held in May 2007 in Santo Domingo. The conference took place just weeks after the IPO occurred, so I chose to focus my presentation on the topics of profits, the prices we charge the poor, and the ways in which we hide our prices. Very few in the industry were disclosing their true prices. Pricing was so opaque that even MFIs didn't know what price the competition was charging, and often times had not even done the calculation of their own prices. Where there is no knowledge of true prices, there is no price competition. The market was clearly broken, and broken markets work to the advantage of the sellers, which is why most sellers don't advocate that they be fixed.

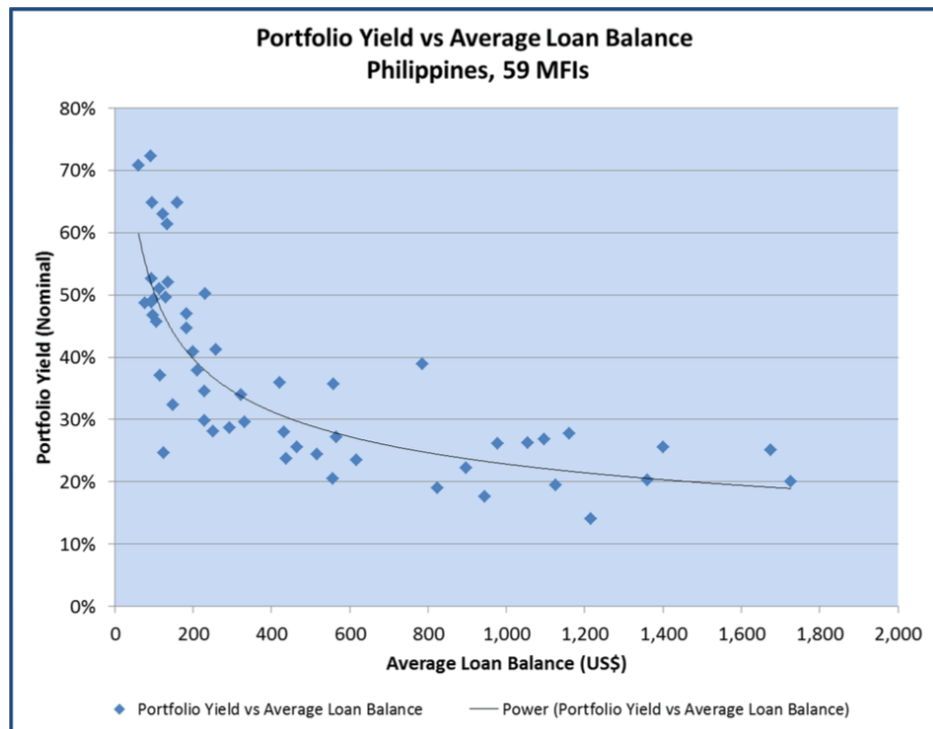
I described how, over time, prices in the industry had become more and more complex and confusing, a mixture of confusing interest rate methods, multiple fees, forced insurance policies bundled with the loan, as well as the pervasive and deceptive forced savings requirements (in actuality a collateral deposit). The combination of all of these led to it being common for clients to be told "*The price is 2% a month*" while the true APR was 75% or more (see examples of how this works in the beginning of [this presentation](#)).

I also explained a fundamental point — *high prices don't necessarily mean high profits*. This presentation marked the first time I showed the price curve at a conference event. The graph below shows data for 59 MFIs in the Philippines. Each dot shows two key indicators for the MFI. The horizontal axis shows the Average Outstanding Loan Balance for the institution (total portfolio divided by number of clients), giving an indication of where in the market they are targeting. Smaller loans generally mean poorer clients. The vertical axis shows the Portfolio Yield for the institution (interest and fee income divided by average portfolio), which serves as a proxy for the price of the loan. To the right side, we see MFIs with larger average loan balances and a lower portfolio yield, i.e., price. As the loan sizes get smaller, the prices increase

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2. The large percent of the industry used the Microfin software I developed to make their financial projections, including Compartamos, and over 3,000 people in the industry attended my week-long course on "Business Planning" to learn approaches for moving toward sustainability.

gradually at first, transitioning from a line to a gentle curve, and then dramatically approaching a nearly vertical line, as the loan sizes get very small.



This graph communicates a wealth of information, much of which the industry had never absorbed. First, not all MFIs target the same clients — in the Philippines, clients of some MFIs have an average loan balance of \$2,000, while clients of other MFIs have an average balance of \$200. Second, it is a grave error to pretend that there is one general price for microcredit — in the Philippines, the portfolio yield ranges from 15% to 70%. And third, those MFIs that are exclusively poverty-focused, i.e., have the smallest loan balances, charge the highest prices. In the Nobel Prize winning industry dedicated to ending world poverty, the poorest pay the highest prices. That is hard to explain, and uncomfortable to divulge, so the industry has been hiding those high prices for decades. This pricing curve proved so central to our message that we later incorporated it into the MFTransparency logo.



### CALCULATING PRICING — APR AND EIR, NOMINAL AND COMPOUND ANNUALIZATION

Borrowers are often given a complicated combination of interest, fees, and other charges when they ask the price of a loan. Lenders have learned how to price products to look much less expensive than they are, making it very difficult for clients to compare prices with other lenders. To protect clients, truth-in-Lending legislation mandates that the charges be converted into a standardized measure that can be used by clients to objectively compare prices of different loan products. Not all indicators are the same. Each country decides on a formula, and it is important to understand the differences, as well as the strengths and weaknesses of the different formulas.

Before reviewing the different formulas, one needs to understand that buying a loan is not like buying clothing or furniture. Typical purchases have set prices; you pay the price and you own the object. The best way to understand loan pricing is to recognize that a loan means you are renting money. You borrow money and you give it back, with a rental charge (usually called interest). Loan pricing becomes very confusing because the client is generally renting a varying amount of money for a varying amount of time. For example, a client's loan balance on a \$100 loan may be \$100 for the first week, then \$90 for a week, and so on until dropping to \$10 for the final week before repaying the loan in full. The total amount paid by the client can be correlated to the loan balances over time and converted into a unit rental price that can be used for shopping for a loan, not unlike the idea of shopping for office space and comparing prices of \$30 per square meter per month in one area of town and \$40 in another location.

The procedure for determining the unit rental price is a fairly standard financial procedure, calculating the internal rate of return (IRR) of the cash flow stream from the point of view of the client. The result is a rental price for a specific period of time, such as a month. However, truth-in-lending figures are virtually always annualized, so that clients don't have to see figures advertised for differing lengths of time. There are two approaches to annualization — nominal annualization and compound annualization — and though little understood they are profoundly different for microfinance prices.

For a monthly interest rate of 1%, nominal annualization does a simple conversion by multiplying by 12, giving 12%. This is intuitive and logical to the client. Compound annualization takes into consideration the potential of compounding. For an interest rate of 1% per month, the holder of that money could make a 1% return for the first month, invest that return, and then the following month make 1% on the slightly larger sum of money. Compound annualization at 1% a month gives an annual rate of 12.7%. The annualized figure is less intuitive to the client and also is based on the assumption that the client has the opportunity to make returns equivalent to the IRR if they keep the money longer. The logic of compounding may be rational for business investment loans but is far weaker for consumer loans.

MFTransparency defines two terms for pricing — APR means the price has been annualized with a nominal process, and EIR means the price uses compound annualization. It is critical to understand that different countries around the world use terminology that is not consistent with these definitions. For example, the US uses nominal annualization in its APR and the UK uses compound annualization in its APR.

MFT uses nominal APR because it is more intelligible and because it also more closely approximates the portfolio yield of the lender. In addition, while nominal and compound annualization methods can have minor differences in conventional finance (12.0% versus 12.7%), it can have massive differences in microfinance. A price of 10% a month is found often in microfinance. This converts into an APR of 120%, but using compound annualization converts that 10% a month figure into an EIR of 255%. Few can understand the logic behind that, and the value of having a true price indicator gets eroded. More specifics can be found in [this document](#) on the MFT website.



## October 2007 — Plenary Debate at SEEP Annual Meeting

Debate about the Compartamos IPO continued non-stop for another six months, motivating those organizing the SEEP Network Annual Meeting to schedule a plenary debate of the topic. I was one of six presenters in the first half of the session. After the presentations, the 300 members of the audience divided into small groups to discuss and propose actions for the industry to take. The ideas were presented and voted on, and the top recommendation was for the industry to promote transparent pricing.

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*The objective of a double-bottom line can only be achieved if there is a genuine conviction, an honest commitment and ongoing practice that emphasizes the importance of pricing transparency and consumer protection as the ideal vehicle for success of both the institutions at the individual level and the industry as a whole.*

Fernando Prado, General Manager, Prospero Microfinanzas Fund, Bolivia

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We six panelists held follow-up meetings to explore what existing organizations might take on the task of collecting and publishing pricing data. We failed to find any organization both able and willing to do so. Though the industry agreed on the need for transparent pricing, no organization stepped forward to take on the task.<sup>3</sup>

## JAN-JULY 2008 — THE DECISION TO LAUNCH MFTRANSPARENCY

### February 2008 — Opportunity Conference and Website Registration

After the positive response to my presentation at the Opportunity Conference in May 2007, I was invited to give a follow-up presentation at their next conference ten months later in Vancouver, in February 2008. My presentation, entitled [Pricing, Prevarication, and Profits: Who Will Protect the Poor?](#), called for the industry to move forward to create an organization to demand transparent pricing. Feedback was resoundingly supportive, motivating me to register the [www.mftransparency.org](http://www.mftransparency.org) domain name that day from my hotel room. MFT was one step

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*Transparency is not about restoring trust in institutions. Transparency is the politics of managing mistrust.*

Ivan Krastev, Institute of Human Sciences, Vienna

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3. Though not contacted by the panelists, two organizations had been doing work with transparent pricing at the time. First, Planet Rating had been including price calculations in their ratings reports for some years, but the reports were not public information and there were only a limited number of MFIs who had been rated by them. Second, Kiva had been calculating the APR of each loan they financed for the previous two years; however, this information was not known by most in the industry and the data had not yet been compiled and analyzed. Neither was in a position to expand their pricing work beyond their client base. Both soon became among the earliest and strongest supporters of MFT.

closer to launch because no other organization was willing to provide the needed service.

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### March 2008 — Incorporation of MicroFinance Transparency

For nearly a year, I, together with two close colleagues —Tony Sheldon and Howard Brady — had been in regular discussions about pricing. The month following the solid support coming in Vancouver, we decided to form a board and contact a lawyer to begin incorporation of a 501(c)-3 non-profit. We began to talk quietly with others in the industry, seeking their opinions on how to start such a task. Though we were laying the groundwork, we hadn't truly made the decision to move forward.

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### April-July 2008 — Decision to Launch MFT at Bali Micro Credit Summit

By the end of April, feedback was uniformly positive, with broad consensus that transparent pricing was essential for distinguishing ethical microfinance from opportunistic microfinance. We then had an opportunity to launch MFTransparency in front of 1,200 people at the opening session of the Micro Credit Summit in Bali and decided to move forward as best we could, given that we had no funding or staff. We decided we would float the idea, evaluate the response, and then determine if and how to build an organization.

Several key activities helped to prepare us for the launch:

- We needed to explore how to publish data on the web, so we made contact with a programmer who gave us a month of pro bono time to help conceptualize the database and the website.
- [Hope, International](#), a non-profit dedicated to international microfinance with their head office based in Lancaster, PA (where I also live), reached out to help us get off the ground. They gave us our first grant funding of \$10,000, and their staff assisted by designing our logo and business card.
- As the conference drew near, the Micro Credit Summit proposed that we put together a list of endorsers of our initiative. They emailed our [Endorsement Statement](#) to a wide range of leaders in the industry, so that when we announced MFTransparency, we could also indicate backing from a list of recognized industry leaders.

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*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

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The plenary started with Dr. Muhammad Yunus speaking on the dangers of excessive commercialization in microfinance. Damian von Stauffenberg, Founder of [MicroRate](#), spoke next, arguing that commercialization was important to the industry, but that it should be done with care. I then spoke on [Why We Need Transparency in Microfinance](#), arguing that while we may disagree on the implications of commercialization, we could all agree that the industry had neglected transparent pricing and was now suffering the

consequences. I announced that MFT would now be willing to take on that task. We then had a lengthy question and answer session with the 1,200 people in attendance, and virtually all comments were in favor of the industry rapidly cooperating with MFTransparency.

The Micro Credit Summit had arranged a global phone-based press conference to immediately follow the plenary, allowing MFT to announce the creation of our initiative. Dr. Yunus attended the press conference as well, in order to draw in a large cross-section of the press, and the following day news stories ran around the world describing MFTransparency's plans. The story was even the home page story-of-the-day at [businessweek.com](http://businessweek.com).



So much had happened in a few short months, but not enough. We had a tremendously successful launch. It was a case of having the right idea at the right time, but what we were launching was really little more than an idea. We were called a global consumer protection agency, but we were just three people who had formed a board and held a few hours of official meetings. We had no money, no staff, and were a web-based company with a one-page website. It was time to get to work.

## AUG-DEC 2008 - GROUNDWORK PRIOR TO STARTING OPERATIONS

Given the startlingly high support at the launch, the three of us on the board held multiple strategy meetings to determine the next steps. I agreed to continue serving as a volunteer Acting CEO. We agreed that we needed to move very rapidly to operations. The industry had woefully neglected pricing practices for years, and the damage internally to the industry as well as externally to the industry's reputation were both accelerating.

We concluded that we did not have the time to attract enough financial resources to build a conventional organization, with a real office and administrative support staff. The three of us each worked as independent consultants, we were comfortable working on projects, and we decided to run MFT as if it were a project, at least initially. Thus proved to be a decision which had important implications a few years later.

For the next five months, we proceeded with an articulation of transparency and pricing; definition of our ten goals; development of the website; advances on the definition of true price; initial fundraising efforts; and the beginning of dialogue with the Smart Campaign.

## The Concept of Transparency, and Why Start with Prices?

Despite the industry's crisis coming from excessive profits, I had argued that profits are generated by prices and that prices were not transparent in the industry. Once we could see the true prices, then and only then should the industry address the question of responsible pricing and the correlation between prices and profits.

### WHAT IS TRANSPARENCY?

In physics, transparency is the property allowing light to pass through a physical material. It allows the observer to see what is inside what would otherwise be a "black box". In the humanities, the concept is applied as a metaphor for individuals or institutions to indicate openness and accountability, with the goal of increasing trust. When applied to management practices, transparency has three primary objectives: information disclosure, clarity, and accuracy. For the microfinance industry to transition to transparent pricing, MFT would need to motivate MFIs to disclose information, develop a clear way for this information to be published, and strive for the highest accuracy possible.

Transparency of pricing information is an essential condition for a free market to operate fairly. If sellers know prices and consumers do not, the market clearly operates in the interests of the seller. Because sellers benefit from this market imperfection, advocacy for fair practices generally requires the consumers to group together to seek protection. Because of the impossibility of mobilizing the consumers of microcredit, we chose to advocate for transparency as a watchdog agency, operating inside the industry. We would need to see if the industry respected that decision.

## Defining our Ten Foundational Goals

MFTransparency decided on a set of foundational goals to guide the organization's funding proposals and operational methodology (shown in table below). These guided our work for seven years and serve as the framework for evaluating our work in this document.

### Ten Foundational Goals

Changed Behaviors	
1.	MFTransparency can create a <b>new awareness</b> and recognition in the industry that the <b>prices</b> charged to the poor are an essential factor that <b>should be transparently disclosed</b> .
2.	Publishing prices and educating the microfinance industry to understand prices will <b>increase both price competition and ethical pressures</b> , resulting in notable price reductions.
Sustainability	
3.	The first time transition of a country to transparent pricing will take effort and dialogue, but then <b>subsequent price refreshing will go quickly</b> and smoothly because the true prices are known. Refreshing data will cost approximately 25% of the cost of the initial process.

4. After subsidizing the first round of data collection, **MFIs will be asked to pay** most of the cost of their transparency by becoming members – why should *others* pay for *their* transparency? To broaden membership beyond MFIs, MFT will provide website dashboards, watch-lists, email price-change alerts, databases and higher-level analysis tools, all of which will help to put pricing at the center of decision-making processes.
5. After proving that data collection can be done, **we will partner with other organizations**, train them, and subcontract them to collect pricing data.

### Leveraged Impact

6. To ensure that our data is accurate and build trust, we will publish all of our pricing source documents on the web – **full transparency of data sources**. We will invite others to scrutinize this material and detect both inaccurate data submitted to us and data calculation errors possibly made by us.
7. To increase our coverage, we will **motivate reluctant institutions** to participate by clearly indicating who has participated and who has declined. The majority will help to pressure the minority. We will also contact and encourage funders and networks to motivate individual MFIs to provide their data to MFT.
8. With our data and knowledge, will **urge regulators to implement Truth-in-Lending** laws and requiring MFIs to report their prices.
9. **Social investors will screen their partners on their pricing**, will be very active in using MFTransparency's information, and will apply pressure on MFIs to set responsible prices.
10. MFTransparency can extend beyond transparent pricing and be a leader in moving the industry toward **broader definitions of responsible practice, distinguishing ethical microfinance from opportunistic microfinance**.

## Starting Design of the Website

We used the small seed money from Hope International to start paying our volunteer website designer to develop the critical pieces of the website necessary to collect and publish pricing data. We hired him half-time during these months, partly due to lack of funding and partly due to serious underestimation of the amount of time the website would take. The challenges will be explained later.

## Initial Fundraising Efforts

We put together a projected budget and a generalized funding proposal and requested meetings with potential funders. In October, I used frequent flyer miles to travel to Netherlands, France, Germany, Switzerland, and Denmark to meet with a range of organizations who had endorsed our Transparency Principles and expressed interest in learning more about our plans. Responses were humbly affirming. We were nothing but an idea, but five different donors indicated they would process an application for funding as soon as we submitted it. One of the five, Oikocredit did better than that, providing a donation of EUR20,000 the day after our meeting. The others — DOEN and three MicroNed members — came through with more substantial amounts several months later.

## Defining and Calculating True Prices

I adapted some of my previous work on pricing calculators to publish Version 1.0 of MFT's [Pricing Calculator Tool](#) (see sample below) and we published it on our website to promote self-training in price calculation. The tool could be used to calculate the true price of a known product, and analysts started to review and learn the true prices of products they were reviewing, many for the first time.

### Calculation of Effective Interest Rate based on Loan Conditions and Pricing

#### Basic Loan Conditions

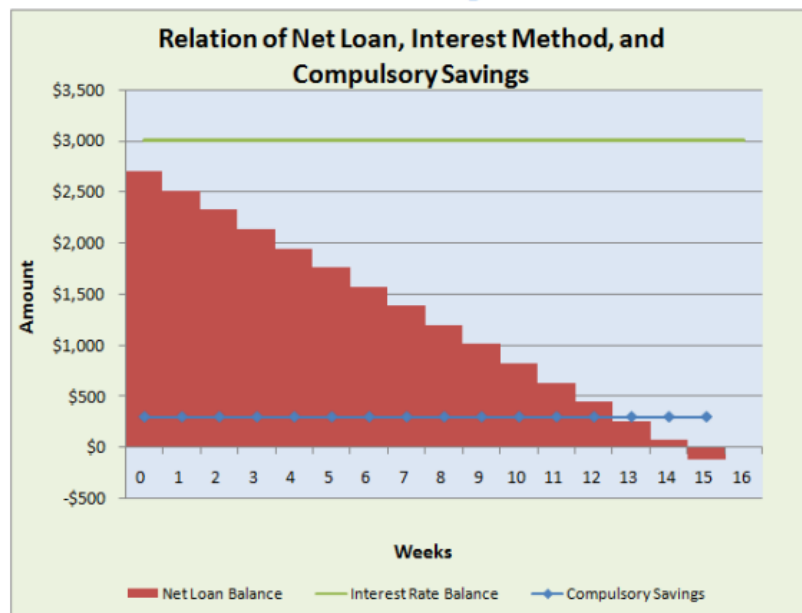
Loan Amount	\$3,000
Term & Repay Freq.	16 Weeks

#### Loan Pricing

Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Flat	
Annual Interest Rate (%)	52.0%	93.7%
Up-front Fee (%)	0.0%	93.7%
Value-Added Tax (%)	15.0%	107.1%
Compulsory Savings (%)	10.0%	129.0%
Savings Interest Paid (%)	0.0%	

#### Total Financial Cost to the Client (excl. savings)

Total Int/Fees/VAT Paid	\$552	in 16 Weeks
Annualized	\$1,794	in 1 Year
Avg net loan balance	\$1,294	
<i>This is the amount the client has to invest in her business</i>		
Breakeven Borrowing Point:	8.65	Months
<i>The month when the total loan cost equals the avg loan balance</i>		
Months with Negative Net Balance		
Weeks:	2	
% of loan term:	13%	



I used this tool to explain how pricing calculations work by analyzing and explaining the Compartamos pricing data in a published paper, [The Challenge of Understanding Pricing of Micro-loans](#).



## WHY DID MICROFINANCE BECOME AN INDUSTRY WITH HIDDEN PRICES?

The industry is constantly asked, and we ask ourselves, how did our prices get so hidden? With the current pervasive behavior, it seems like it was an orchestrated plot developed by global collusion. In reality, it was a process which I call [The Downward Spiral](#), in which the actions of a minority spread and affect the actions of nearly everyone, often reluctantly. At first, in the 1970's and 80's, MFIs charged very low prices and stated those prices as banks would, with declining balance interest and perhaps a modest fee. A few MFIs in Latin America started raising their prices starting in the 1980's, and as prices increased, some lenders borrowed tricks developed by predatory lenders, such as "flat interest".

As described in MFT's [TRAPS](#) Handbook, though called interest, flat interest is nothing other than a monthly fee. It does not meet the textbook definition of interest in that the amount charged is not correlated to the amount of money borrowed over time. Flat interest generates nearly twice the income of true interest, so the product looks far cheaper than it truly is. If I charge 36% declining balance interest and my competitor starts advertising 24% flat interest, I lose clients, even though my price is actually cheaper. How am I to avoid the downward spiral of switching to flat interest?

In the late 1990's, USAID, CGAP, and Ohio State's AgEcon Department – all three led by staff with extensive Latin American experience – started advocating strongly that MFIs move toward more sustainability by raising their prices. Funding to the large US-based networks started coming with strings attached that they raise their prices. Global pricing practices started changing quickly.

An example: Despite effective operations and large scale, microfinance in Bangladesh was harshly criticized by these three groups for choosing to subsidize their operations. A World Bank consultant advising three large MFIs in Bangladesh in 1996 saw they were covering only half their expenses and advised that they could reach full sustainability by simply switching their calculations from declining balance to flat. There was no need to change the quoted interest rate; it was a change in pricing that few would notice but would double their income. Within a year, every other MFI in Bangladesh followed suit and switched from declining balance to flat.

As microfinance transitioned to commercialization, the next step was to attract funders, leading to the creation of the [Microfinance Information Exchange \(MIX\)](#) in 2002. MFIs provided financial statement data and some supplementary information, allowing the MIX to calculate and publish a broad range of financial indicators. The MIX was a major step toward microfinance developing the reputation of being transparent, but there was one very significant financial ratio that was conspicuously absent in the array of indicators – portfolio yield. As portfolio yield is a proxy for the average price charged, the MIX made the decision to hide this information to avoid drawing any attention to the prices MFIs were charging. The MIX showed profitability coming from efficiency and portfolio quality, but it chose not to show the other side of that equation, the price paid by clients. This wasn't the decision of the MFIs submitting data to the MIX; it was an internal decision of the MIX, and they didn't start to publish portfolio yield until 2010, when MFT continually challenged the omission.

Over the space of 10-15 years, hidden pricing became nearly universal practice in country after country, as the first few MFIs would adopt practices they had seen used elsewhere, and then other lenders would follow suit. Not a single pricing trick was invented by the microfinance industry; they all had been invented long before microfinance by lenders choosing to hide their true price, and microfinance just borrowed and combined them to such an extent that not even the industry knew our true prices.

Ironically, microfinance became known as a highly transparent industry, but prices were the darkest secret.

## Coordination with the Pocantico Declaration and the Smart Campaign

Unknown to the MFT board at the time, Deutsch Bank convened a small group of industry experts to discuss the controversies at a retreat in Pocantico, NY, in April 2008. According to a notice posted on the Deutsch Bank website, the resulting [Pocantico Declaration](#) "outlined the need for an industry-wide set of principles to ensure transparency and responsible pricing, ethical collections practices and avoidance of over indebtedness for microfinance clients among other fundamental protections."

In the following two months, CGAP led a process to distill the main points of the Declaration into the **Client Protection Principles**. Simultaneously, ACCION dedicated 1% of the \$300 million in profit they had made from the Compartamos IPO to establish the **Center for Financial Inclusion (CFI)**, housed inside ACCION. The CFI then stepped forward to promote the principles, which later came to be known as the [Smart Campaign](#). As two new initiatives created so closely together to address the problems of responsible practice, MFT and SMART agreed to stay in regular contact.

## MFTransparency enters a Holding Pattern

2008 was drawing to a close, a year with lots of activity, lots of discussion, and lots of preparation. But we still had only one half-time paid staff person, our bank account was nearly empty, and we hadn't yet collected any real pricing data. Would any of this really work? We ourselves were among the doubters, and we wouldn't find out until Phase I began in 2009.

## IN SUM — PROGRESS, SETBACKS, AND NEW LEARNINGS

After decades in relative obscurity, the brief admiration bestowed on the microfinance industry by the 2006 Nobel Peace Prize turned into questions and suspicions when Compartamos held its IPO in 2007. Massive profits from loans to the poor, paying extremely high — and hidden — prices generated debate outside and inside the industry. Many in the industry saw the pendulum swinging from high subsidies to balanced business and continuing, even accelerating, toward high profits.

The MFT founders argued that when consumers don't know true prices, the market is broken. Seeing the clear need for transparent pricing, but with no organization able and willing to address it, MFTransparency took tentative steps forward. Those steps led to testing the waters, by launching at the 2008 Micro Credit Summit in Bali without any funding or staff. Response was overwhelmingly positive, and the MFT Board decided to start seeking funding in order to put together staffing. While receiving positive responses, the organization had to wait the necessary time for funding to be approved. While in preparation for operations, MFT developed its Ten Foundational Goals, covering the three areas of changed behaviors, sustainability, and leveraged impact.

Also, it wasn't just the public that was unaware of true pricing in microfinance. The industry itself needed intensive education. MFT began educating the industry about how to calculate pricing and released a Pricing Calculator Tool. It also demonstrated the Pricing Curve and the resulting complexities for judging pricing. High prices don't necessarily mean high profits — analysis needs to examine pricing that is "off the curve."



## 2009-11 — PHASE I: DIRECT DATA COLLECTION

Three years of learning-by-doing, growing in spurts sandwiched between crises, and being surprised by having more success than expected

### Outline of Chapter

#### Preparing for Phase I

- Overview of the three phases of data collection
- Conceptualizing the approach for Phase I
- Identifying the four core activities and seven strategic principles

#### Activities and Results of Phase I

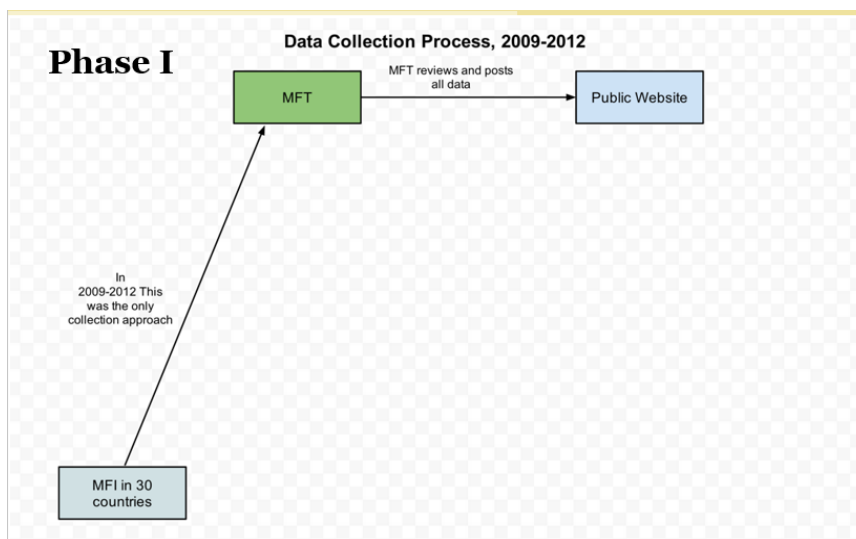
- Activity 1: Pricing Disclosure
  - 2009 Data Collection
    - Pilot Countries: Peru, Bosnia and Herzegovina, Cambodia
    - Bangladesh Training
    - Azerbaijan and Kenya
    - Historic first publishing
  - Cash flow crisis of Q4 2009
  - 2010-11 Expansion
    - India transparency and the crisis
    - Sub-Saharan Africa Transparency
    - South African MFIs boycott transparency
    - South America transparent, but not Argentina
    - West Africa transparency and usury laws
    - Refreshing pricing
    - Never-ending website delays
    - Certifications — LAPO and Grameen
    - Side box: Databases and Websites – When to Start Over?
- Activity 2: Training and Education
  - Trainings and Presentations
  - Significant tools and articles
  - MFT Resource Catalogue
- Activity 3: Regulator and Policymaker support
  - Reserve Bank of India
  - WAEMU
  - Africa Regulator Event
- Activity 4: Industry Voice for Transparent Pricing

#### Planning MFT's next steps amidst crisis

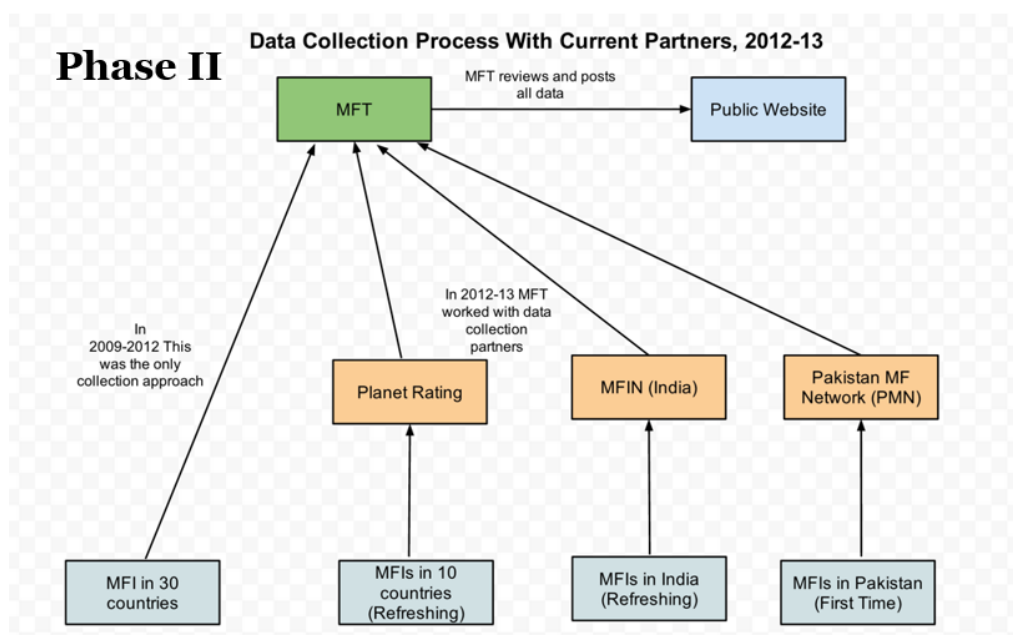
## PREPARING FOR PHASE I

### Overview of the Three Phases of Data Collection

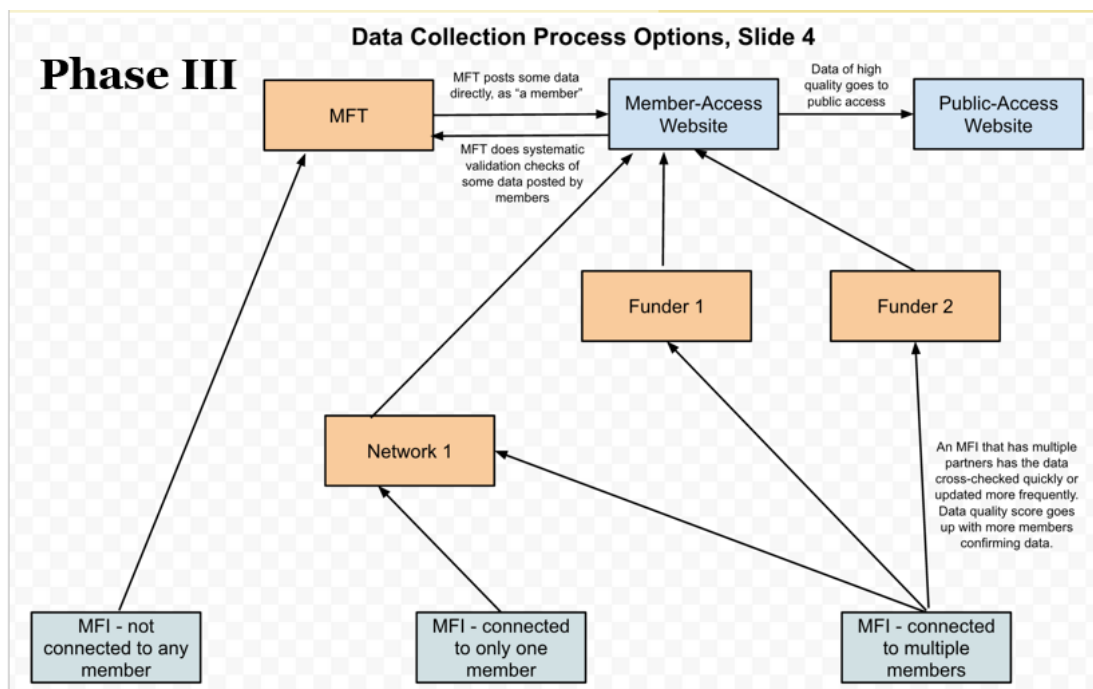
MFTransparency's data collection operations went through three distinct phases, and those phases form the structure of this report. The first diagram below shows the simple method used in Phase I, the period of this chapter, where MFT directly approached MFIs, collected data, and published it with open access to anyone in the world. MFT did not allow networks or funders to collect and submit the data to MFT. All data needed to come directly from the MFI.



This chapter will describe the successes and challenges of Phase I. Due to a funding and staffing crisis in 2011, MFT entered Phase II, partnering with three other organizations. In Phase II, during 2012-13, MFT did no direct data collection, instead training analysts of the partners and reviewing and approving the work they submitted.



The chapter on Phase II will describe the history of that period and how and why MFT ultimately decided to shift into Phase III, inviting a wide range of analysts, networks, and funders to participate in broad-based data collection, as shown in the diagram below. The approach avoids duplication of effort currently happening when an MFI might give pricing data to 2 funders, a network, and then later to MFT. Instead, all agencies pool and share data collected by any one of them, resulting in a larger data pool and efficiencies for all involved. Due to concerns from those collecting data, all agreed that data would first be stored for member-only access, rather than full transparency. At a future date, some data would be migrated to full public access.



Though promising in concept and receiving a great deal of interest from the members, the pilot project showed conclusively that there were many barriers to success. These are described in the section on 2014 and the following chapter on 2015 that describes MFT's decision to cease operations. The closing chapter describes MFT's proposal for the industry to continue with transparent and responsible pricing.

## Conceptualizing the Approach for Phase I

In the first quarter of 2009, we still were awaiting final approval of the larger funding contracts we had negotiated at the end of 2008. We still were a board with 3 members and a staff of 1.5 people. We had only \$10,000 in our bank account, but we were confident operations would soon start and focused our efforts on defining the principles and methodologies.

Using the initial list of **Ten Foundational Goals** (page 5), we developed our planned **Four Core Activities**, a list that would remain constant for the duration of MFT's existence:

## Four Core Activities

- 1) **Pricing disclosure** – present information on credit products and their prices in a clear and consistent fashion, so that all microfinance stakeholders can work with a full understanding of the true prices paid by clients, and also promoting the use of "Full APR" as the standard for communicating pricing that allow comparison between products.
- 2) **Training and Education** - provide training and education and disseminate straightforward educational materials to the broad range of stakeholders to ensure that transparency leads to a strengthening of the microfinance industry.
- 3) **Regulator and Policymaker Support** – provide customized training and education to regulators, share examples of effective policy, and facilitate discussion between regulators of microfinance markets around the world.
- 4) **Industry Voice for Transparent Pricing** – partner with initiatives such as the Social Performance Task Force (SPTF), the Microfinance Information Exchange (MIX), and ACCION's promotion of the Smart Campaign to further industry discussion on transparency and client protection.

We then developed a set of Seven Strategic Principles in order to achieve the Ten Foundational Goals. These were: **Objectivity, Verifiability, Inclusive Coverage, Contextual Interpretation, Incentives, Freshness of Data, and Work from the Edge of the Inside.**

### Principle 1: Objectivity

We were solidly committed to the core principle of **objectivity**. From the beginning we decided to only publish prices, withholding any judgement of the fairness of those prices. Our views were that we needed to first collect pricing data, then study and learn from that data, and then and only then could we and the industry reach decisions about the appropriateness of the prices we charged. Only one subjective score would be assigned, as it was in line with the principle of transparency — the MFT **Pricing Transparency Index**, which measures the degree to which the quoted interest rate matches with the true price (see description below). MFT chooses this comparison because it is the first (and sometimes the only) pricing information communicated to a client when they ask the price of the loan. An MFI may divulge the APR to the client at some point, either due to legal requirements in the country or to internal policies, but this does not get reflected in the Transparency Index.

**What is the Pricing Transparency Index?**

The Pricing Transparency Index is a rating of pricing transparency. The Index shows the percentage of the loan price that is communicated by the lender's nominal interest rate to the borrower. It can be applied at a range of levels - country, institution, product and loan.

The higher the Pricing Transparency Index rating = the more transparent the price.

**How is the Pricing Transparency Index Calculated?**

The Pricing Transparency Index is calculated by comparing the nominal interest rate quoted by the lender with the **true price** paid by the borrower.

$$\text{Pricing Transparency Index (\%)} = \frac{\text{Quoted annual nominal interest rate}}{\text{Full APR (interest + fees + insurance + tax + deposit)}} \times 100$$

**Principle 2: Verifiable Prices**

Our conversations with the industry constantly led to the question "*How will you confirm the accuracy of the data and prevent lies?*" We determined that we would publish only **verifiable prices**. By that, we mean that every price published would be generated from a real loan going to a real client within the previous 3 months. We also decided we would not just use those repayment schedules to generate the calculations, but we would publish those documents on our website so that others could see and check the prices we were publishing. We warned MFIs that if they submitted something that was false, that would quickly be noticed by their own staff or by their competitors and it would be reported to us. By the end of Phase I, we had collected and published over 10,000 loan repayment schedules, such as the sample below.

**Figure 1: Sample Repayment Schedule**

21-11-2013					
Nombre AC: [REDACTED]			Nro.Operacion: [REDACTED]		
Dia de reunion:LUNES			Hora de reunion:14:00		
Plazo:32 SEMANAS			Frecuencia de reuniones:4 SEMANAS		
-----					
Nombre socia(o): [REDACTED]			CI: [REDACTED]		
Direccion: [REDACTED]					
-----					
Monto prestamo: 4,000.00			Ahorro inicial: 400.00		
-----					
PAGO DE CUOTAS			SESION EDUCATIVA		
-----					
Fecha	Capital	Interes	A.Durante	A.Vol.	Total
-----					
16/12/2013	454.00	112.00	100.00	0.00	666.00 DOCUMENTOS QUE ACREDITAN
13/01/2014	466.71	99.29	100.00	0.00	666.00 NUEVA SESION 2
10/02/2014	479.78	86.22	100.00	0.00	666.00 NUEVA SESION 3
10/03/2014	493.21	72.79	100.00	0.00	666.00 NUEVA SESION 4
07/04/2014	507.02	58.98	100.00	0.00	666.00 NUEVA SESION 5
05/05/2014	521.22	44.78	100.00	0.00	666.00 NUEVA SESION 6
02/06/2014	535.81	30.19	100.00	0.00	666.00 NUEVA SESION 7
30/06/2014	542.25	15.18	100.00	0.00	657.43 SIN SESION EDUCATIVA
-----					
	4,000.00	519.43	800.00	0.00	5,319.43

### Principle 3: Inclusive Coverage

We also faced the decision about which lenders to include. Should we only approach the Top Ten in the country, or should we have broader coverage despite the higher costs involved? We opted for broad coverage:

- We would accept data from any lender selling loans meeting the national definition of micro-credit;
- We would work with all types of organizations — NGOs, cooperatives, mutuals, private for-profits, public for-profits, regulated and non-regulated institutions, churches, and even payday lenders... any organization willing to complete the survey information;
- Although all were welcome to submit data, we gave extra effort to dialoguing with the larger MFIs as well as those MFIs belonging to known international network or being funded by known social investors.

### Principle 4: Contextual Interpretation by way of Country-level Data Collection

We all knew from portfolio yield information that prices were much higher in some countries than others, and this led to challenges in interpreting pricing data. For example, it was difficult to put data from, say, the Philippines, together with data from Bosnia and make any sense of why the Philippines was so much higher.

Therefore, in this first stage we determined it was essential to first look at prices in the context of the market. We chose a strategy to work country-by-country. We would seek funding to manage a 6-month process in each country to:

- Research the market and the regulations in that country
- Contact potential partners, e.g., national networks
- Schedule a "launch" meeting where we would invite all the MFIs to discuss pricing transparency, hear our proposal on how we would guide them through, and answer any questions they had;
- Collect data, holding it all confidentially (see details in the next section);
- When we had data for at least 80% of the market, we would hold a second event to share and explain the data and then to publish it that same day.

This approach influenced the choice of countries where we would work. There needed to be enough MFIs for the prices to reflect a market. We also would try for markets that were reasonably mature, with MFIs that had been operating for years and had reached large scale.

Once we had data from a wide range of countries with different environments, we would be able to compare and contrast those prices and theorize why prices varied so significantly. A breakthrough on this is included in our 2011 paper "[Is Transparency Enough? What is Fair and Ethical in Pricing?](#)"

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#### **Principle 5: Incentives to Motivate MFIs to Participate**

We faced the question of how to motivate the MFIs to voluntarily give their data. We chose to avoid any aspects that might give excuse for non-participation, e.g., we did not charge the MFIs a fee for processing their data, and we did not request any information about profit levels, salaries, or operational efficiencies.

We decided the best approach was to work *with* them, instead of *against* them. From the beginning, we worked to provide a path out of the trap of hidden prices. It is difficult and even dangerous to be the only lender with transparent pricing. MFIs constantly told us they were hiding their price because everyone else was hiding their price. We later documented this in what we call [The Downward Spiral](#).

Our country-level process provided two advantages. First, we guaranteed that if only a small number of MFIs submitted their pricing data, that data would not get published because there would not be a context to interpret their prices. The first to give data were recognized as leaders in transparency, but they were safe if the others declined. Second, we used the list of those who had given data to motivate the others to participate. MFIs typically fell into four groups:

- The first group, usually about 30%, would quickly give their pricing data.
- MFT would then share that list with the rest of the MFIs, and a second group of MFIs, the 40% "sitting on the fence", would decide to provide their data, bringing us to 70%.

- We would then share that larger list with the remaining 30% of MFIs, as well as contact their networks and funders, asking them to encourage the MFIs to cooperate. We would get about 15% more to provide their pricing data, reaching a total of 85% of the market.
- The fourth group, the remaining 15%, were invited one last time to provide data. A few would, and the remainder would be identified on the website as refusing to provide data. Generally, we had data for 90% of the market, and the decision of the remaining 10% to refuse transparency would speak for itself.

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**Principle 6: Freshness of Pricing Data**

Pricing competition would come only if prices were reasonably current and available. Ideally, MFIs would be frequently checking the latest prices published on MFT's website and deciding on any price adjustments. Our original goal was to ask MFIs to submit new data any time they changed their prices, and to confirm or update their data every three months.

Conceptually, this required only modest effort. We expected the majority of the updates to indicate "no change in pricing", meaning it would take the MFI five minutes of work every three months to send back a statement that prices were unchanged. Changed prices and new products would require an hour of work to indicate the changes.

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**Principle 7: Work from the Edge of the Inside**

We on the board had never been involved in Consumer Protection efforts, and when we researched its history, it was nearly always a movement of consumers grouping together to challenge improper industry practices, generally by advocating for legal changes and regulations.

MFT wasn't able to mobilize microfinance clients globally, nor were we able to advocate for legal changes in over 50 countries in the short term. We instead decided to use our strengths — we on the board knew the industry well, we were respected, and we could work inside the industry. We believed that the majority of the industry was in favor of the change we were advocating and would support self-regulation if there were a path and a leader. Therefore, rather than challenge from the outside, we would motivate change while remaining inside the industry, positioning ourselves at the edge of the inside.<sup>4</sup> We set up rules to maintain sufficient independence and to not be perceived as being influenced or controlled by self-interested parties.

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4. Although we chose this approach in 2009, we later came across the phrase "edge of the inside" in the writings of Richard Rohr.



## Summary of Goals, Activities and Principles

The following table provides a concise presentation of the ten foundational goals, the four core activities, and the six strategic principles.

Summarized Goals, Activities and Principles	
Ten Foundational Goals	Four Core Activities
<b>Changed Behaviors</b> 1 New awareness of prices; commit to transparency 2 Increased price competition and ethics	1 Pricing Disclosure 2 Training and Education 3 Regulator and Policymaker Support 4 Industry Voice for Transparent Pricing
<b>Sustainability</b> 3 Refreshing data will be faster and cheaper 4 MFIs will pay the costs of data collection 5 Partner with other organizations to collect data	Seven Strategic Principles
<b>Leveraged Impact</b> 6 Build trust through full transparency of the data 7 Motivate MFIs to participate 8 Urge regulators to pass truth-in-lending 9 Investors will screen partners on pricing 10 Industry will advance on responsible practice	1 Objectivity 2 Verifiable Prices 3 Inclusive Coverage 4 Contextual Interpretation 5 Incentives for MFIs to Participate 6 Freshness of Pricing Data 7 Work from the Edge of the Inside

*The same principles of transparent pricing applied to the commercial finance industry in many countries should also be applied to the microfinance industry. It is our duty to clearly communicate true prices to our clients. MFTransparency is taking this very important initiative in the world of microcredit. I wish the organization a great success in moving the microcredit movement forward to achieve its goal.*

Muhammad Yunus, Founder, Grameen Bank

## ACTIVITIES AND RESULTS OF PHASE I

Phase I was the longest and most intense phase for MFTransparency, lasting nearly three full years from early 2009 until the end of 2011. Everything about pricing transparency was new, untested, and undefined. Our plan was to start with MFT collecting data directly from the MFIs, to learn by doing, and to then revise and refine our methodology before sharing it.

Phase I encompassed major activities and results in all four of the Core Activities.

1. **Activity 1:** The first part of our efforts in Phase I was dedicated to **collecting and publishing pricing data**. We needed to find out if MFIs would willingly share their data, and we needed to *have* data in order to *learn* from the data. Despite serious problems with our website, we were successful in collecting data in nearly every country we visited, though not all data was published.
2. **Activity 2:** Access to robust and consistent pricing data for the first time in microfinance history, allowed us to expand our **education activities** into understanding rather than just calculating prices. We made extended presentations and trainings at dozens of industry events, and our sessions always generated a great deal of interest and discussion.
3. **Activity 3:** With this foundation, we were then able to expand our **dialogue with regulators**, sharing pricing results with them as well as examples of sound truth-in-lending regulations we had encountered.
4. **Activity 4:** We were constantly engaged with in the growing discussion of **responsible pricing**. Although MFT had only been speaking on transparent pricing, the industry quickly advanced to discussions of responsible pricing, inviting the input of MFTransparency on the topic.

We encountered two crises which threatened the survival of MFT. The first was a funding crisis in late 2009, and the second was a staffing crisis in late 2011. The second crisis is what brought Phase I to an end.

The following sections summarize activities and results in each of these four areas.

### Activity 1: Pricing Disclosure

Pricing data collection began with a three-country pilot in mid-2009, and continued with two more countries before funding ran out at the end of 2009. New funding prompted major expansion in 2010 and 2011. MFT succeeded in collecting data from most of the countries, but the period was full of surprises and challenges. As data continued to come in, MFT began to make breakthroughs in understanding pricing, unveiling both rational and self-interested motives underlying pricing. In addition, it became evident that many MFIs do not understand how true pricing is calculated, approached pricing as an array of charges to cover different costs, and didn't realize how their choices impacted their clients.

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## 2009 Data Collection

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### 2009 PILOT COUNTRY FUNDING

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Even prior to our launch in July 2008, CGAP had expressed interest in funding our pilot research. The funding was approved in early 2009 to cover three countries, and we were able to then schedule our first field operations.

We chose three countries in three geographic regions. Each country had a strong microfinance industry with a reputation for transparency and active participation with the MIX — Peru, Bosnia and Herzegovina, and Cambodia. This allowed us to focus on the methodology and offered a high probability of good participation and coherent data. Success in our first countries would provide motivation for MFIs to participate while in countries with less openness.

### PERU, MARCH 2009

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Peru was one of the most mature microfinance markets in the world, also operating under the truth-in-lending regulations of the banking superintendence, the SBS. We expected this all to make our task easier, but we found instead numerous surprises and our first country ended up being a failure, because we never published the data for Peru.

Our failure was not due to MFIs unwillingness to cooperate. In fact, we did collect data from 37 MFIs, including the largest ones in the country. What we learned in Peru is that well-intentioned regulation does not always result in well-functioning markets. MFIs engaged in a number of behavioral changes in response to regulation and tax laws:

- NGOs are not included in the range of regulated institutions. Therefore, their prices remain unknown to the other lenders and to the consumers.
- Not recognized as financial institutions, NGOs are required to pay a Value-Added Tax on their income. Financial institutions are exempt from this tax, meaning NGOs need to charge a significantly higher price to cover the higher taxes.
- Although regulated institutions in Peru are required to publicly post prices, the laws don't require notifying the client of the actual APR of their loan until late in the loan application process. Lenders can advertise prices on their products being "as low as x%", but the true price of the client's loan can be much higher than that public price.

As a result of allowing a wide range of prices, Peru has the most varied pricing policies of any of the 30 countries we would analyze. Ironically, we started our operations with the most challenging country, and we were not prepared. As we went thru the survey questions, it was not uncommon for the process to go as follows:

- Us: *What is the interest rate on this loan?*  
MFI: *It ranges from 15% to 40%*  
Us: *That's a wide range. What factors determine the rate charged?*  
MFI: *The loan officer proposes a rate, which is then finalized after some negotiation with the client.*  
Us: *And what about fees?*  
MFI: *We have a fee at disbursement ranging from 0.5% to 2.0%.*  
Us: *And what determines the fee for a given client?*  
MFI: *The loan officers' judgement of the credit risk of the client.*

Our impressions were that clients buying a loan in Peru would find the process similar to that of a client buying a used car — the asking price is high, and you have to bargain hard to get a lower price. But how many clients understand that and negotiate aggressively? Our initial survey tool was not structured to handle such variability, and our plans to calculate prices based on actual repayment schedules was based on the assumption that prices for a product were reasonably uniform. If prices vary widely, then the prices we would calculate would depend on the samples the MFI chose to show us.

We matured a lot in these first months of operations, but the process of us getting wiser meant that the prices we calculated in Peru were not up to our publishing standards. The Peruvian microfinance industry cooperated with us, but the prices never appeared on our website.

Our experience in Peru led to three revisions in our approach:

- We heavily reworked the Excel-based Data Collection Tool to allow for much more variability in pricing, incorporating minimum and maximum value cells on every single pricing component;
- We revised the policy manual to have more control over the repayment schedules that we would accept, e.g., requiring samples submitted to include prices on the higher end of the continuum;
- We designed more cross-checking procedures for the staff to use to determine if the prices we calculated represented the true range of prices. This increased the amount of staff time necessary to review and approve pricing data, but it was necessary.

#### BOSNIA AND HERZEGOVINA, APRIL 2009

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We started our second country just two weeks after Peru was launched, before we could absorb the lessons of Peru, but we had complete success. [Bosnia and Herzegovina](#) also had highly-regarded truth-in-lending legislation, but in this case, the legislation had motivated consistent, conventional behavior. Only Micro-Finance Corporations (MFCs) were allowed to lend, and they were all regulated, so the legislation applied to everyone in the country. The interest rate calculation method was legislated, and the APR formula included all fees, insurance, and any compulsory savings. MFCs were obligated to show all charges on a standardized repayment schedule format, and the APR was clearly displayed on that format.

We found none of the pricing variations we experienced in Peru, so prices could be calculated with a high degree of confidence. The MFIs were very cooperative, and we got 100% participation within just a few weeks of starting data collection. MFT team morale improved and optimism was high.

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#### CAMBODIA, AUGUST 2009

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[Cambodia](#) was the third country in our planned pilot. The [Cambodia Microfinance Network](#) worked closely with us, including setting up meetings with the National Bank of Cambodia (NBC) and arranging for the head of the NBC to inaugurate our conference. Cambodia has long had one of the best truth-in-lending regulatory environments in microfinance. For example, they banned flat interest in 2002. There are strong expectations for transparency, and the MFIs cooperated by providing data to MFT for over 95% of the market, all completing their data submission within two weeks of the data launch event.

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#### BANGLADESH, AUGUST 2009

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MFT was hired by the Microfinance Regulatory Authority (MRA), the Institute of Microfinance (InM), and Palli Karma Sahayak Foundation (PKSF) to provide 3 days of training to over 200 microfinance practitioners in Bangladesh on the topic of transparent pricing. We asked the InM it would be possible to have the MFIs bring their pricing information to the conference, allowing us to calculate the actual prices, and they agreed. However, rather than distributing MFT's data survey tool, the InM reworked the survey to have far fewer questions without informing us. We discovered the changes to the survey when we arrived in country, too late to make necessary changes. Although the training was successful, the altered survey form meant that the data collected was inadequate to calculate true prices and they were never published.

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#### AZERBAIJAN, AUGUST 2009

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In mid-2009, MFT received a contract from KfW, the German aid agency, to collect pricing data in the small microfinance market of [Azerbaijan](#). MFT staff participated in the network conference and met with MFIs, and ten of the thirteen MFIs participated. During this contract, MFT also tested a methodology to collect and analyze the Annual Percentage Yield (APY), representing the true yield savers earn after accounting for fees on their account. The calculation follows the same principles as APR for credit, but with flows operating in reverse. The potential to add this data to MFTransparency was there, but because savings is still such a limited aspect of microfinance services, we never implemented this further.

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#### KENYA, OCTOBER 2009

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MicroNed provided funding to collect data in [Kenya](#), our first country in Africa. The process was our longest, taking nine months to complete, and even then just 18 MFIs agreed to participate, giving our lowest coverage of the market of the five countries where we had collected data. There were no clear reasons for the low participation other than unwillingness of MFIs to share their pricing data openly.

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## HISTORIC FIRST PUBLISHING OF MICROFINANCE PRICING, OCTOBER 2009

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MFIs in all three countries in the pilot had been very cooperative, especially given that this was a sensitive topic and this was the first time in history that this had ever been done. We held a [global webinar event](#) to present and explain the prices. Our funding was extremely tight at the time, so we asked for donations to commemorate the launch and had dozens of individuals and institutions contribute over \$45,000.

MFT had only been operational in the field for six months. We learned to be smarter about the questions we asked, we learned that organizations would cooperate when a level of trust had been created and the process was collaborative rather than confrontational, and we were humbled to see so many in the industry willing to contribute financially to the launch. However, a crisis loomed.

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### Cash Flow Crisis of Q4 2009

We had sought funding in Q4 of 2008, resulting in funding contracts that arrived by Q1 2009 and allowed us to hire staff and begin field operations. We made a second round of visits to potential funders in Q2 2009, but only \$20,000 of new funding arrived by Q4 2009 and we were now suffering a serious cash flow crisis. Chuck Waterfield had served as Acting CEO until Q2 2009 and then shifted to part-time Technical Advisor, as MFT hired a paid, fulltime CEO. With the cash flow crisis, the CEO moved on and Waterfield returned as unpaid Acting CEO. MFT had two paid staff (COO and Web Designer) and only enough funds to pay them for a few months. Everyone was anxious as the year-end holiday period approached and passed.

In the first week of January 2010, the [MFIN Network](#), recently formed in India, contacted MFT requesting that we collect and publish India pricing data. We indicated that we had no funding in place, and asked about possible funding sources. We also informed MFIN that we would not allow them to directly fund more than 25% of the budget to avoid suspicions that MFT's data would not be objective. Waterfield stopped in India for three days at the end of January to meet with prospective partners and funders and received immediate approval for sufficient funding from Standard Chartered Bank, Citibank, Dell Foundation, and MFIN. Though still on the verge of bankruptcy, we were now funded to collect pricing data in the largest and most important microfinance market in the world, if we could just stay alive for a bit longer.

Understanding that our funding was precarious, both Ford Foundation and MasterCard Foundation (MCF) invited MFT to submit proposals, and both proposals were reviewed and approved by February 2010. MCF funded work in ten countries in Sub-Saharan Africa, and Ford funded work in four countries in South America.

Had the January and February funding not arrived, MFT would have closed down after just 9 months of field operations, even though those operations were quite successful. Instead, MFT was able to begin contracting staff for field offices in India, Ghana, and Ecuador — three countries on three continents, and to begin significantly expanding its work.

## 2010-11 Expansion

### INDIA TRANSPARENCY PROJECT AND CRISIS

2010 did not begin with any concerns about the India microfinance market. In fact, expectations continued to be very high. India was the largest industry in the world, continued to grow, most of the MFIs were profitable and had solid repayment, and SKS was expected to hold an IPO that year. MFTransparency held a series of launch conferences in five Indian cities in April 2010 and began to collect pricing data. The MFIs cooperated promptly, with 82 submitting data representing loans to over 25 million clients. We were completing the data review and planning the upcoming pricing data launch just as a massive crisis began in October.

Constant growth and expansion of many MFIs had resulted in the build-up of serious client over-indebtedness over time. Loan officers often have a significant portion of their paycheck based on two criteria — making new loans and maintaining high repayment. Knowing that clients already have several loans, some loan officers are motivated by their paychecks to approve yet one more. Then, as the client struggles to pay all the loans, those same loan officers are again motivated to now apply pressure for repayment. The pressure can sometimes be extreme, and the press reported a number of clients [committing suicide](#), prompting the state government of Andhra Pradesh to pass an ordinance prohibiting abusive collection practices. [Repayment rates dropped](#) from 99% to 20% by January 2011. MFIs suspended disbursement of new loans, outstanding loans were not being repaid, and there wasn't interest income to pay staff. The MFIs were in a tailspin.

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*Transparency pre-supposes a level of fairness. Those who are fair and reasonable can afford to be transparent. Thus, if we merely insist on transparency and pursue it to its logical end, it would also automatically lead to the players adopting fair practices be it with regard to pricing, client interactions etc. Thus...just advocating total transparency in the communication of lending rates itself would automatically lead to fair pricing.*

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Vasudevan PN, Managing Director, Equitas Microfinance India

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The global press was constantly reporting on the crisis, and speculating about what prices the MFIs were charging the clients. Nobody knew the true prices, as they had never before been calculated and published, and the prices published were always highly inaccurate. MFT had all the data, and we found ourselves in the difficult position of knowing all the answers but not being able to divulge the information.

The Indian government appointed the Malagum Commission to review the crisis and propose a path forward to resolve the problems. MFT stayed in contact with the industry and as soon as the Malagum report was published in January, we immediately scheduled our data publication [conference](#) in Mumbai in February, followed by a [full day analysis event](#) with the Reserve Bank of India. Within months of the Malagum Report, MFIs were required to operate with much more transparent pricing. Flat interest, used by about 80% of lenders, was banned, compulsory insurance and compulsory deposits were prohibited, and fees were limited

to a maximum of 1% upfront. MFT's contribution to the dialogue was successful, and we watched to see if India's microfinance industry would recover.

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#### SUB-SAHARAN AFRICA TRANSPARENCY PROJECT

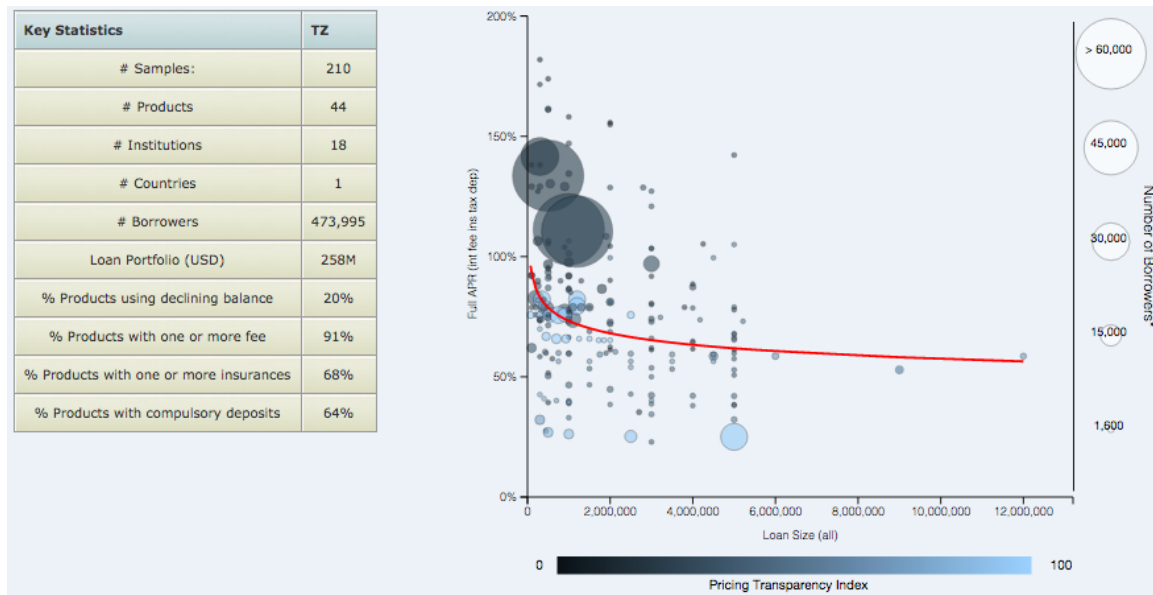
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The MasterCard Foundation provided funding to collect data in 8 countries over an 18-month period, using a regional office established in Ghana. The office had a Project Manager and four analysts who were based in Accra but would travel for several weeks at a time to the countries to meet arrange launch events and to meet individually with the MFIs to collect their pricing data.

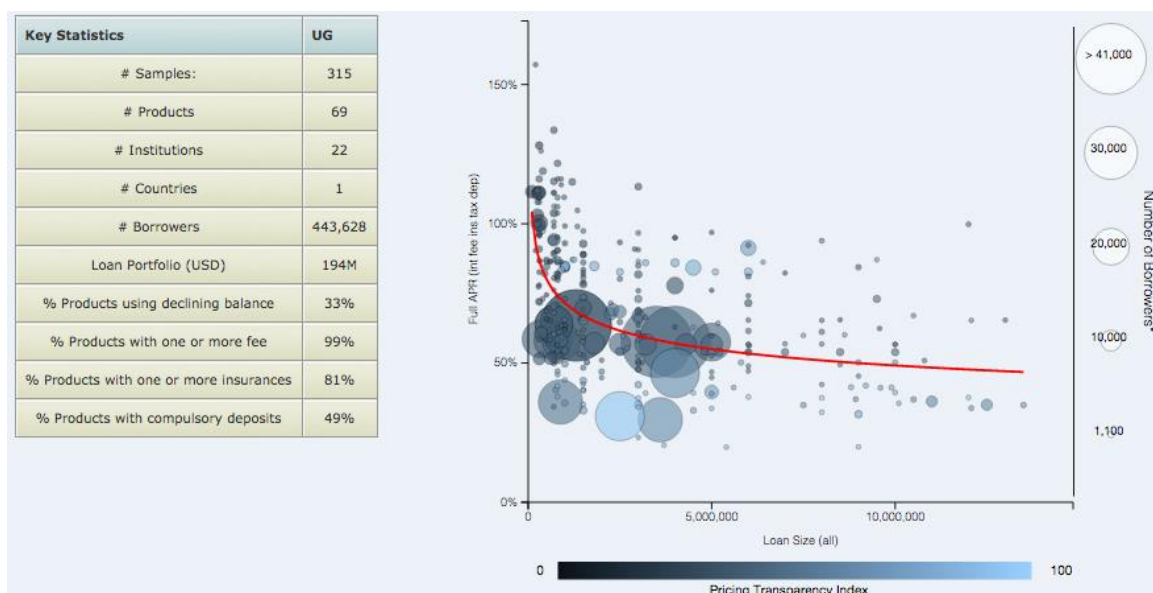
We scheduled the countries in sequence, starting with Uganda and Rwanda in August 2010, Malawi in January 2011, South Africa in February, Ghana in March, Tanzania and Zambia in April, and Mozambique in October. There were challenges: many of the countries covered by this project had MFIs with weak management and poor data systems; many MFIs operated at very small scale; the prices we calculated and published were often extremely high, with countries like Ghana, Malawi, and Zambia having average prices of nearly 100% APR; and the prices were often very opaque, due to loans with a multitude of confusing pricing criteria. Because nobody in the market, including the MFIs, had any awareness of the prices charged, there was no semblance of any market pricing. Prices for any given loan amount were often spread all over, from reasonable low to extremely high.

As an example, the chart below shows data for Tanzania. One MFI, PRIDE is by far the largest institution (bubble size is correlated to number of clients) and has prices between 100% and 150%. Their pricing is also very non-transparent, with an expensive compulsory deposit requirement greatly increasing the true price. Full APRs in Tanzania range from 25% to 175%, and pricing is complex for the majority of the products, as shown in the statistics in the table on the left. Only 20% of products are priced with declining balance interest, 91% of products have at least one fee, 68% of products also have compulsory insurance, and 64% of products have compulsory security deposits. Clients hear a jumble of pricing information and therefore there is no true price competition. Is it any wonder that there is such a vast pricing range?



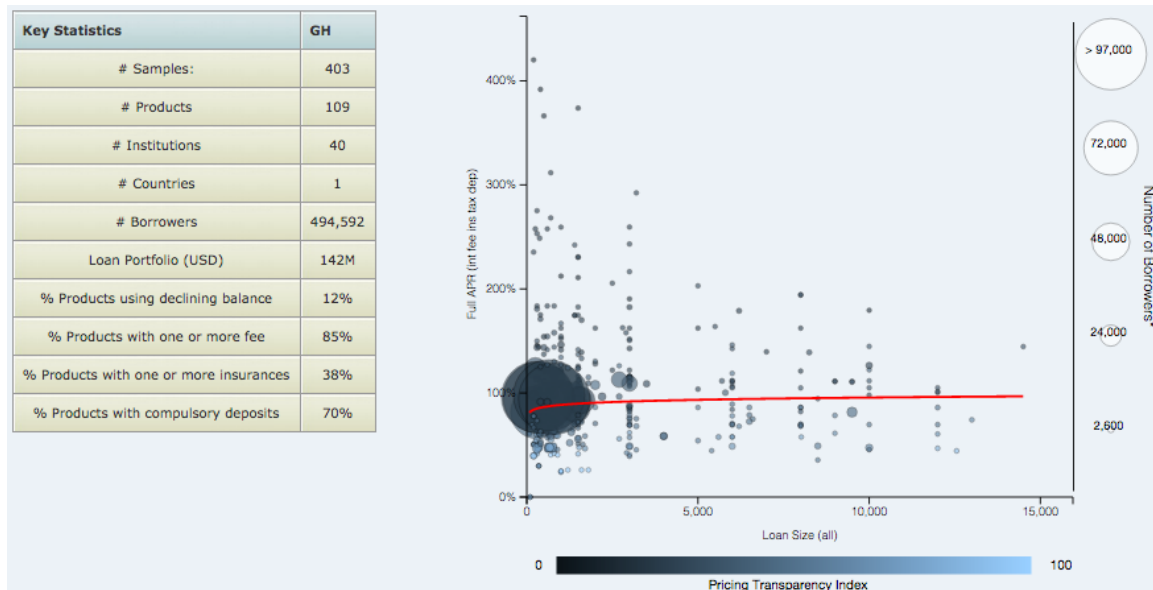
**Figure 2: Tanzania Pricing Analysis**

The next chart shows pricing for Uganda, the most market-like country in the region, with prices more closely following the expected price curve. The average price is a relatively more modest 60%, yet prices still range from 25% to 75%. As with Tanzania, the statistics in the table to the left show very complicated pricing. The poor have limited resources and would almost always choose the lower price loan if they could identify it, but that comparison is not possible.

**Figure 3: Uganda Pricing Analysis**

Finally, Ghana shows one very large lender, SAT, charging 100% APR on very small loans. The other 39 MFIs are of very small scale in comparison and charge prices ranging from 25% to 400%. The lack of any appearance of price competition drawing prices closer together (or lower) is very likely related to Ghana's MFIs having the most opaque pricing of any country we have surveyed in the world, though the high prices are also a consequence of the multitude of small and inefficient MFIs.

**Figure 4: Ghana Pricing Analysis**



## SOUTH AFRICA BOYCOTTS TRANSPARENCY

MFT was unable to collect any pricing information from South Africa, the first time MFIs had refused to cooperate. Our first challenge was that it was difficult to determine who is an MFI in South Africa, as there are two classes. First, there are a small number (8-10) of "traditional" MFIs that follow the general history of the microfinance industry, most of who are associated with [Tembeka](#). Second, there are the 650 members of the [MicroFinance South Africa Network](#) (MFSAN), nearly all of whom offer payday lending to people with salaries and do not loan to the self-employed. Although three of the traditional MFIs agreed to meet with us initially, the remaining seven MFIs mobilized a boycott of the transparency project. Unexpectedly, the payday lenders agreed to attend our launch events and were open to providing some pricing data on an anonymous basis.

The difficulty of collecting and publishing pricing data in South Africa was compounded by manipulative rules set up by the self-regulatory body, the [National Credit Regulator](#) (NCR). The NCR was created by the financial industry in 2005, following high publicity of abusive lending practices in South Africa. Instead of establishing an independent body to monitor consumer protection, the industry received permission to self-regulate. Sadly, multiple sources told us that the NCR had designed a false price cap, entirely "to fool the politicians."

At the time of the crisis, lending rates were in the range of 300% to 400% when measured by the APR formula South Africa was previously using. Taking advantage of the confusion about understanding true financial prices, the new NCR rules limited *interest rates* for various lending activities. For example, payday lenders were limited to 60% annual interest rate, but lenders were allowed to charge a variety of fees that resulted in the APR remaining at 300% to 400%. The NCR rules shifted the income from relatively transparent interest rates to opaque fees and kept the true price essentially unchanged. In addition, the NRC now prohibited any lender from publishing the APR, choosing instead the Total Cost of Credit (TCC) as the only allowed true-price indicator. (Click [here](#) to see how TCC is far from suitable as a suitable truth-in-lending indicator.) The combination of these factors led MFT to stop trying to collect and publish transparent pricing in South Africa.



South Africa taught us to be more aware of the dangers and limitations of self-regulation in the microfinance industry. The NCR's consumer protection actions perversely gave protection to the industry, and the actions of the industry were distorted, as a result. For example, in our meeting with Africa Bank, we found the advertisement on their door shown in this photo — loans at 0% interest. Though not the payday loan product, this product also had the opportunity to charge very high fees. When we asked the Africa Bank managers about the pricing tricks, they actually stated that they expected loans might soon be offered at negative interest, because the fee income was so high the product would still be very profitable.

## SOUTH AMERICA TRANSPARENCY PROJECT

Ford Foundation provided funding to collect pricing data in four countries — Ecuador, Colombia, Bolivia, and Argentina. We established a base office in Ecuador and staff travelled to each of the four countries.

### ECUADOR, APR-DEC 2010

The Ecuador collection went smoothly, with very high attendance at both the project launch events and the data publishing event. Twenty-seven MFIs submitted data, covering 80% of the known microfinance market. The [price analysis](#) showed a competitive market, with MFIs still providing small loans despite a fairly low price cap for the country. A very interesting comparison of the Ecuador market to Bolivia and Peru can be found [here](#), showing that Ecuador's MFIs continue providing smaller loans than Bolivia or Peru, in contrast to the common assumption that a price cap will cause MFIs to move to larger loans.

However, we found out a year after publishing that all did not go perfectly. Ecuador has both truth-in-lending legislation and a usury law. Lenders are required to report an EIR, and the maximum value for microfinance in 2010 was 30.5%. The Ecuadoran formula does not include insurance in the calculation, and at least one significant lender in Ecuador was charging multiple insurance fees to clients as a means to increase income while staying under the legal usury law. However, this lender intentionally chose not to divulge that information to MFT, violating the MFT rules for data collection. As the insurance fees were not shown on loan repayment documentation, it escaped detection by MFT analysts. In all the data collection done by MFT over 6 years, this is the only known intentional violation, but it does open up questions about what other MFIs providing data to MFT might have intentionally withheld information.

#### BOLIVIA HAS 100% PARTICIPATION, JUN-DEC 2010

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Bolivia data came together quickly, and MFT reached the notable milestone of perfect 100% participation from membership of the two Bolivian networks, Asofin and Finrural. The [analysis of the results](#) show a broad curve, with low prices on the larger loans that dominate the market, and significantly increased prices on the smaller MFIs still targeting the very smallest loans.

The Bolivia analysis highlights critical factors for understanding pricing in microfinance. First, Bolivia has always been publicized as a country with one of the lowest micro-credit prices. Analysts emphasize that prices continually drop, concluding that this is because of growth and competition. However, it is seldom noticed or mentioned that the Bolivia market has shifted over the years toward much higher loan sizes. [This analysis](#) shows time-series data for various countries, including Bolivia, demonstrating conclusively how MFIs consistently move toward larger average loan balances, resulting in better efficiency ratios which generally translate into lower prices.

Bolivia prices seem lower than other countries, but that is heavily due to the size of the loans. For example, comparing data from Bolivia with the higher-priced Philippines market shows clearly that Bolivian microfinance is primarily oriented toward larger average loan balances and therefore targeted "before the curve starts". The example below shows the operating cost ratios of MFIs in Bolivia (blue) relative to Philippines (red). Historically, the Bolivian MFIs used to be located closer to where the Philippine MFIs are currently.

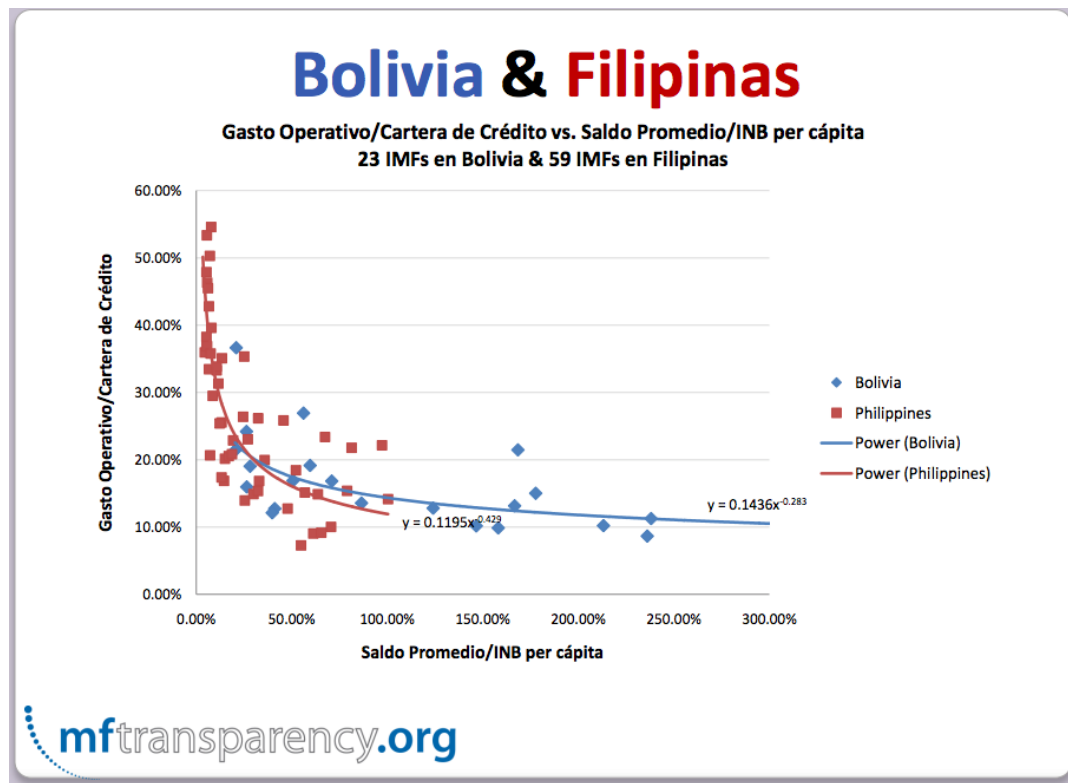
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*I applaud MFT's achievements by holding this type of event which, with the support of the institutions involved, not only represents benefits for the consumer of financial services, but also has a positive impact on the financial institutions themselves by having clients who are better informed and more aware of their rights and responsibilities*

Iván Velástegui, General Director,  
Superintendence of Banks and Insurances (SBS), Ecuador

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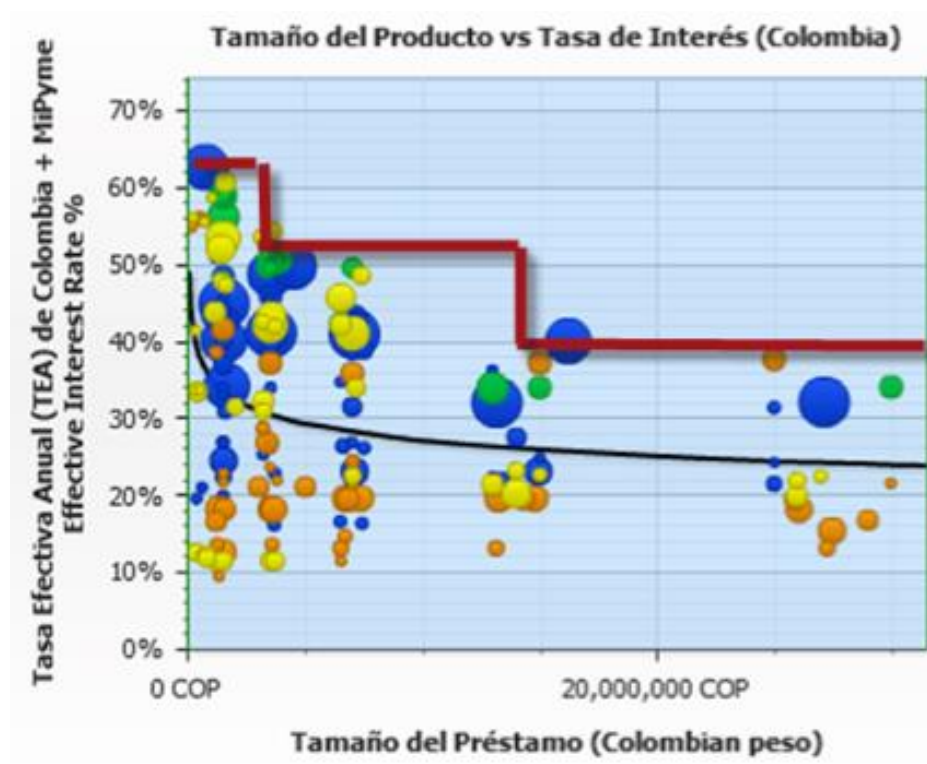
Figure 5: Comparison of Operating Cost Curves of Bolivia and Philippines



COLOMBIA, SEP 2010 - OCT 2011

Colombia was initiated after Ecuador and Bolivia data collection was proceeding smoothly. Data collection took longer than any other country — 13 months. Disappointingly, even after that length of time, only one of the top five MFIs in the country provided pricing data. As explained in [this article](#), Colombia has a complicated usury law that none of the general public and only a few people in the industry really understand. There are really three different price caps, correlated to the amount of the loan, with the highest cap coming as the result of an additional fee (the MyPYME) that the lender is allowed to charge on the very smallest loans and which isn't included in the pricing formula (TEA). The prices published are shown in the graph below, with the red line indicating the level of the three price caps at the time the prices were published.

Figure 6: Colombia Pricing, Showing 3-level Price Cap



The government announces changes in the price cap on an arbitrary basis, with the determination made on criteria which are not divulged publicly, i.e., the cap is not correlated to LIBOR or some other independent measure. The MFIs would give their pricing data to MFTransparency, but before the publishing date arrived, the government would change the price cap limits (raising them each time during the year we were collecting data). The MFIs would then increase their prices and then have to resubmit data to MFT, so the process of collecting our initial data took forever. Colombia turned out to be another indication that moving the industry to transparent pricing is a process that takes determination and perseverance.

#### ARGENTINA BOYCOTTS TRANSPARENCY, OCT 2010

Argentina is by far one of the smallest microfinance markets we had attempted to analyze. We had been avoiding small markets because of the potential for a limited number of actors to collude and avoid the peer pressure MFT had mobilized in larger countries. Argentina, a market with only twelve small MFIs with only 30,000 total combined clients, did just that.

MFT made a presentation and provided a supplemental orientation session at the national conference co-sponsored by ANDARES and Radim in October 2010. MFT then placed a data analyst in the country for several months, but despite the length of time and the small number of MFIs, only four MFIs submitted complete pricing data. When calculated by the official Argentine EIR formula, 14 of the 18 products in our dataset had



prices over 100%, and when these prices were shared back to the MFIs, the twelve MFIs called a meeting, attended by the MFT representative. Out of concern that the high prices would become public, they voted to boycott the transparent pricing project and issued a request to those who had already submitted data that they withdraw from the project. MFT had no choice but to cease work in the country, and the high prices charged in Argentina remain hidden to this day.

#### WEST AFRICA TRANSPARENCY AND USURY LAWS, MAY 2010 - OCTOBER 2011

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Luxembourg Cooperation funded MFT to work in the eight-country West Africa Economic Monetary Union (WAEMU, also known by the French acronym BCEAO). MFT placed two analysts in the region and held launch events in seven of the countries (Cote d'Ivoire was not included due to a civil war at the time). Although participation and cooperation were excellent, with 96 MFIs providing their full data, none of that data was ever published.

Years ago, in 1997, the WAEMU implemented a "Law on Usury", establishing a formula for measuring the true price, called the "Taux Effectif Global (TEG)", and setting a cap on the highest TEG that lenders are allowed to charge. In 2010, this usury cap was set at 27%. Violation of the law could be penalized with up to 2 years in prison and a substantial financial fine. The dilemma, as we discovered, was that the usury law was known by all, but understood by none.

As we were doing our preliminary research, our staff found that the TEG formula was difficult to even locate. The acronym was known, but the formula was not. Once finally finding the formula, when we started our data collection we found none who had actually used or understood the formula. As a result, the MFIs generally interpreted the 27% to mean a quoted interest rate. As half of the loan products in the region used a flat interest rate method, MFIs would assume a 20% flat rate to be permitted, but the true price calculated by the formula would be well in excess of the 27% TEG. When we calculated the prices of products of the 96 MFIs, we found nearly half the institutions to be in violation of the usury law.

Our conclusion was that the MFI violations were virtually all unintentional and were due to a combination of misunderstanding on the part of the MFIs and non-enforcement by the regulators. We base our decision on the following:

- Obviously, if the MFIs knew they were violating a law with such severe penalties, they would not have willingly provided MFT with the evidence to be published publicly, incriminating themselves so willingly.
- In our discussions with a broad range of stakeholders, nobody knew there were any violations.
- Our challenge to even locate the TEG formula was indicative of inadequate publication of the rules.
- Despite clear violations, not a single MFI has been penalized for violation of the law, indicating that the law was not being enforced at all.

We concluded that this data should not be published, as there was no indication of intentional guilt. We instead [posted an explanation](#) of our decision, together with a list of the 96 MFIs who, admirably, had willingly agreed to be transparent on their pricing. We also received financial support from Grameen Credit Agricole to hold a [one-day conference](#) in February 2011 to bring together the MFIs, analyst agencies, and government officials to discuss the gap between rules and practice and urge all parties to work together to bring some resolution to the problem. This proved to be the first of several regulator conferences in 2011 (see page 85).

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#### PHILIPPINES TRANSPARENCY PROJECT, JAN-DEC 2011

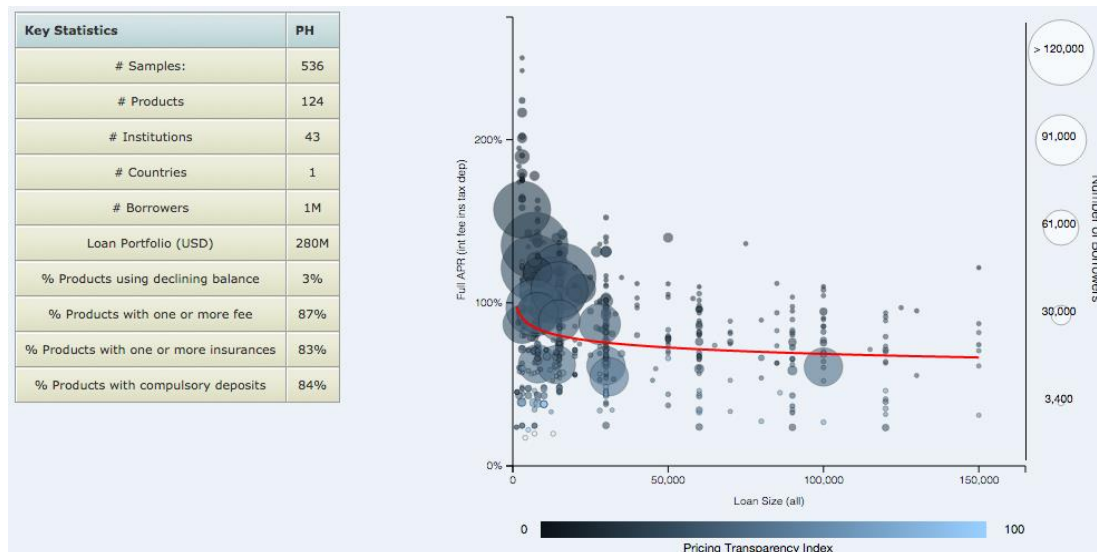
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Luxembourg Cooperation funded MFT to collect data in the large and disperse Philippines market during 2011. MFT hired two full time in-country analysts, and MFT senior staff travelled to the Philippines three times during the project. After 8 months of work, MFT received data from 42 MFIs with a combined total of nearly 2 million clients. The largest MFI in the country, ASA, submitted data within the first month, however the next three largest MFIs in the country declined — CARD Bank, CARD NGO, and Lifebank Foundation. Other than Colombia, there was no other country where the medium and small MFIs chose transparency but such a significant number of the largest MFIs in the country declined.

As we found out over the next several years, large MFIs who decline transparency may do so with little to no consequence. Their affiliations with international networks and funding sources often remain unchanged. External stakeholders generally indicate they prefer the MFIs practice transparent pricing, but they fall short of making it a requirement for continued partnership. For example, despite declining transparency, CARD Bank remains in affiliation with WWB and Grameen Foundation, and CARD NGO with Grameen Foundation and Oikocredit. Actions like this communicate “safe if I don’t” to other MFIs, making the industry’s goal to practice transparent pricing much more difficult to attain.

The Philippines operating cost curve had been shown in all of our presentations as a demonstration of the implications of delivering extremely small loans relative to the GNI-per-capita of the country, and the pricing data we ultimately published confirmed that, as shown in the graph below. Bubble size, representing number of clients, shows an overwhelming concentration of clients with very small loans, with prices ranging from 100% to 200%, making the Philippines the country with the most clients paying the highest prices of any country surveyed by MFT. Also, the data again contradicts the common assumption that reaching large scale results in increased efficiencies that translate into lower prices.



**Figure 7: Philippines Pricing Data**

Also, the Philippines is one of the least transparent pricing markets surveyed by MFT. Only two of the MFIs had a Transparency Index above 50, six others were between 40 and 50, and the remainder all had a Transparency Index below 40. This contrasts with broader transparency awards the Philippines has received for sharing their financial statements openly. The statistics in the table to the left of the graph above show some stunning statistics — flat interest is nearly universal (97% of loans), 87% require additional fees, 83% require insurance be purchased, and 84% also have some of their loan tied up in a compulsory security deposit.

A detailed analysis of the pricing in the Philippines can be viewed in Annex 1 of [this report](#).

## ETHIOPIA TRANSPARENCY PROJECT, OCTOBER 2011

MicroNed provided funding for MFT to collect and publish pricing data in Ethiopia, and the process went very smoothly. MFT partnered with the national network, [AEMFI](#), and 17 MFIs promptly provided pricing data for loans going to 2.4 million clients, representing 95% of the known market. [The prices](#) are the lowest of any country in Africa that MFT has published, partly due to regional governments backing some of the largest MFIs.

## REFRESHED PRICING

Although MFT originally planned to keep data refreshed every 3 to 6 months, we were unable to do so due to various factors — website development problems, the amount of time required to get an MFI to submit revised data, and limited funding to cover the costs of data refreshing. We were able to schedule and refresh pricing in just three countries — Azerbaijan, Cambodia, and Bosnia and Herzegovina — when their data was one year old. We selected these countries partly based on cooperation levels when collecting initial data, and

in all three cases, the MFIs cooperated reasonably promptly, as they had during the first round of data collection.

## CONTINUAL WEBSITE DELAYS

From the beginning, we decided we must be a website-based organization — this was the best way to present pricing data, and it was also the most promising means to collect data from hundreds of institutions spread around the world. In 2008, before starting operations, we created draft layouts of the data presentation, using the price curve graph and data tables. The centerpiece of the system was the database that would store the data and generate the visuals on the website. However, MFT management allowed the website development team to operate too independently, and the consequences were debilitating to our operations throughout the entirety of Phase I. Although we recovered in Phase II by replacing the database and website with completely new systems designed by a new team (see page 66), the mistakes are an important part of MFT's history and the lessons learned can be valuable to other organizations. If interested, you may find details in the accompanying side box.

## PRICING CERTIFICATIONS, LAPO AND GRAMEEN

For the first two years, we had never had a request to certify the prices of a single MFI outside of a country where we were already working, but that changed starting in 2010. MFT was hired by two MFIs to do independent price certifications, both motivated by receiving controversial coverage in the global media, but the two certifications ended up having little else in common.

On 13 April 2010, the microfinance world was shaken when the New York Times ran a full-page story entitled "[Banks Making Big Profits from Tiny Loans](#)". The front page of the paper showed a picture of a client of LAPO in Nigeria. The text of the article listed the many prominent microfinance funders who had invested in LAPO, and it quoted a Planet Rating report that revealed prices as high as 126%, with an average price with interest and fees of 74%.



## DATABASES AND WEBSITES — WHEN TO DECIDE TO QUIT AND START OVER?

In 2008, we were a new organization, almost no staff and no funding. We knew the website and database were critical, but we delegated the work to our website person, who indicated continually that the design was under control, our review and input were not needed, and that these were technical issues beyond our areas of expertise. Embarrassingly, we failed to detect these obvious warning flags.

A general temptation of developers is to aim too high. Our database designer selected PostgreSQL, a very powerful SQL application able to handle massive volumes of data and began designing a relational database, allowing more flexibility and versatility of data input, and avoiding duplication of data, but there are various degrees to which this can be implemented. Our designer split the database up into over 70 different tables that were connected (related). More tables means development is extremely time consuming, understanding the resulting product is very challenging, and maintaining the database is laborious.

In addition, the developer made the choice to develop the entire website platform manually, using Python, Django, and a range of other tools which, while powerful, are complex to work with and time consuming. Tasks which seem simple, like adding a new input field to one of the tables in the database (e.g., a new yes-or-no question on the survey), would turn into a task that would take hours, if not days to implement. By not building on an existing website platform, the developer even had to write programs for every commonplace task.

At first, even the home page and text-based information was hard-coded, meaning there was no webpage editor available for MFT staff to change anything on the website. By the second half of 2009, the operational staff could no longer tolerate the text platform, and we approached an outside company to assist with creating a parallel website using WordPress. We then had to juggle the two websites - [data.mftransparency.org](http://data.mftransparency.org) to hold all pricing information data and display it to the visitor, and [www.mftransparency.org](http://www.mftransparency.org) as a WordPress-based website where our staff could post news, blogs, and resources. WordPress provided a solution to everything but the data, but the data was the heart and soul of our work.

We had planned to collect data via a webpage entry form, and the developer had ensured this would be forthcoming, but he missed deadline after deadline, creating increasing urgency as we were active in a growing number of countries. We made the decision to add a second developer in Q1 2010, but still saw very slow progress. We still had to move forward with data collection so we developed an Excel-based Data Collection Tool and used it throughout the entire of Phase I data collection. Staff then had to manually transfer the data from Excel to the website platform, creating delays and extra work.

By 2010 we hired a third person, a part-time systems engineer, to evaluate and monitor the work of the two developers and determine the appropriate path forward. By now, it was evident that the original work was flawed, and we continually deliberated whether we could fix the existing system or whether it was better to start over again. The development team argued in favor of fixing the system, but by early 2011, all three had handed in their resignations.

This turned out to be an opportunity, allowing us to hire a new developer who had a solid base of development experience and had no vested interest in the existing system. He quickly identified the weaknesses and put together a proposal for reengineering a new system and migrating the data over to the new system. Due to lack of funding and staff capacity, this would not start until 2012.

In summary, from 2008 thru 2011, we constantly faced challenges with our website that impeded the productivity of virtually every staff person. Despite the impediment, we developed alternative means to collect and clean data and were able to get prices published through the hard work of the operations staff. However, though seeing delay after delay we still postponed making the hard decision to recognize failure and start over. We finally made that decision, but would not be able to implement it until Phase II. We were a web-based company that was working with only the shell of a website.

After some weeks of internal discussions with its funders, LAPO contacted and hired MFTransparency to do an independent pricing certification. LAPO requested that the report be confidential, as ratings reports typically are, and LAPO would share it with the stakeholders it would choose.

Controversy continued, and in a follow-up report from Planet Rating, LAPO provided them with the MFT certification which was then quoted in their report as follows:

*"Microfinance Transparency also noted that as the client remains with LAPO, the APR can reach between 99% and 144% by the third year (depending on the loan amount and increase at each cycle) due to the cost of accumulating weekly savings that cannot be withdrawn."*

Despite two certifications clarifying the prices of LAPO, in 2012, an article appeared in the Telegraph, "[Microfinance is under threat from greed - and it's the poor who are suffering](#)", containing the following:

*"This weekend, Godwin Ehigiamusoe, managing director of Lapo, told The Sunday Telegraph that interest rates at the MFI were 2.5pc a month with a 1pc management fee – or a total of 42pc a year"..... "Ehigiamusoe said Microfinance Transparency, an American company, had been employed to review the price codes."*

MFT staff has collected countless news articles that quote what MFIs claim to be charging clients while using definitions selected by that MFI to put their price in the best light. This is disappointing but expected behavior when there are no standards in place. However, this was the first and only time an MFI used deceptive definitions while jointly drawing on MFTransparency's reputation.

In 2011, Grameen Bank was included in an attack documentary that led to accusations that Grameen Bank and Dr. Yunus were charging extremely high prices and, in the words of the Prime Minister, "[sucking blood from the poor](#)." Global political leaders [rallied to send their support](#) for Grameen Bank and urge the government to reconsider their accusations, but the pressure continued. Grameen hired MFTransparency in December 2011 to review their prices and issue a certification, which they permitted MFT to [publish here](#).

The results are quite impressive. We found that Grameen has the most transparent pricing of any MFI we have evaluated, and their price is one of the lowest we have seen in the world — their APR is 20% per year, and they have a perfect Transparency Index of 100. Other key findings:

- The interest is charged on the balance of the loan, whereas the vast majority of MFIs in Bangladesh use flat interest rate.
- They charge no fees.
- They offer a fully optional insurance coverage, for 3% of the loan amount, at disbursement, and the client may cancel and receive a refund at any time during the loan term. If the client does buy the insurance and keep it, the APR is 21.5%.

- Grameen has a savings account system, with small period deposits expected, but unlike most compulsory deposit systems, clients have complete freedom to withdraw their savings at any time. Therefore, MFT did not include this in the price calculations. If it were included, the APR is 22.2%.

The confusion and flawed judgements from the media and government resulted in part because Grameen charges a fully transparent price while the rest of the lenders in Bangladesh do not. Standard practice for the large MFIs in Bangladesh in 2011 was to charge either 12% or 15% flat interest — and then add a variety of fees, insurance, and deposits. Grameen's 20% (declining balance) interest rate looks substantially higher than the 12% and 15% (flat) rates, when in fact it is lower than either when converted into an APR.

Grameen Bank's prices are very modest and entirely transparent, and its profit levels are healthy but quite moderate in comparison with other MFIs in Bangladesh and the world, with a 1% RoA and a 15% RoE as reported on [MIXMarket](#). In addition, 95% of Grameen's shares are held by the clients, so profits go back to the clients. Despite this, the government proceeded to replace Dr. Yunus as the Managing Director and then to take over ownership of Grameen Bank.

In contrast, LAPO charges a true price ranging from 99% to 144% and generates disconcertingly-high profits off of their clients, having a 10% RoA and a 54% RoE in 2012 as reported on [MIXMarket](#). After the media controversy passed, they continue operating and have converted into a for-profit, awarding 12% of the shares to the same Managing Director who misstated LAPO's pricing in the article. Investors continue to work closely with LAPO, including the [IFC providing \\$5 million in late 2012](#) and the [Dutch Development Bank, FMO, loaning \\$9.5 million in late 2014](#).

When prices are not widely known and even less understood, the media, the clients, and even the lenders themselves cannot compare data and reach proper conclusions. Innuendo based on inaccurate and incomplete information can cause serious damage, and that is in fact what happened with Grameen Bank, despite the MFTTransparency pricing certification, while others like LAPO escape judgement.

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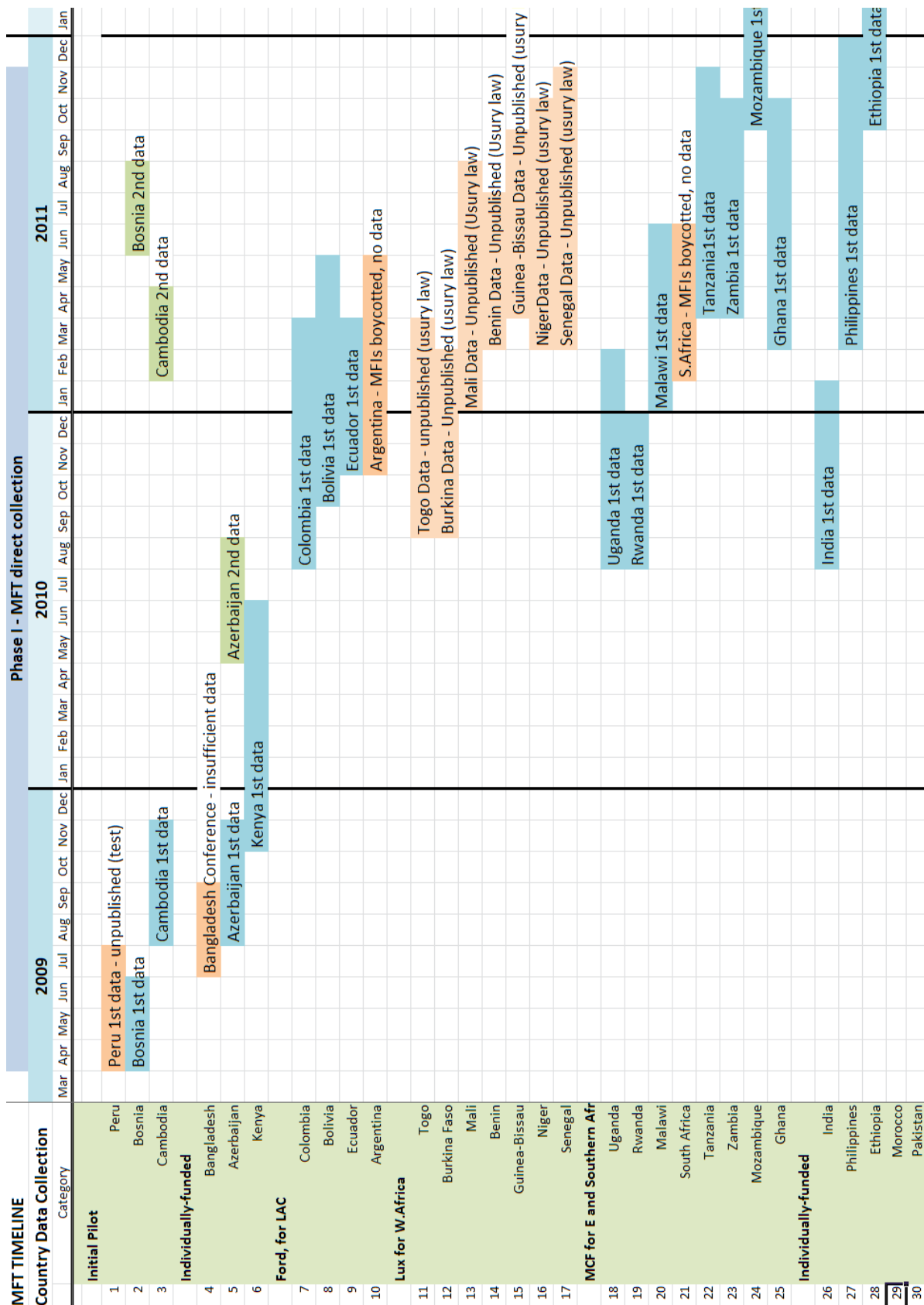
### Summary of Data Collection in Phase I

In less than three years, MFT undertook data collection in 29 countries and refreshed data in 3 of those countries, for a total of 32 rounds of data collection. We were able to publish data for 21 of the 32 rounds. Although the success rate of 21 out of 32 collections seems low, there were only 2 cases where MFIs blocked the publishing of data — South Africa and Argentina. Data didn't reach our publishing standards in Peru and Bangladesh. Seven countries in WAEMU cooperated fully but we withheld the data because of usury law complications. In 30 of 32 collections, the MFIs were cooperative and provided their data.

### Countries with Active Data Collection Efforts

Year	First-time Countries	Refreshed Countries	Total Collections	Unpublished			
				Published	Poor Data	Usury Laws	MFI Boycott
2009	6	-	6	4	2	-	-
2010	10	1	11	8	-	2	1
2011	13	2	15	9	-	5	1
Total	29	3	32	21	2	7	2

The chronology of the collection efforts is shown in the following timeline. Blue indicates first-time, successful data collection, green indicates data refreshing, and orange indicates data that did not get published. 2009 shows activity in 6 countries, a reasonable start for a brand new organization. The funding crisis of Q4 2009 created a gap in activity in the first half of 2010, but then we initiated collection in 11 countries in the second half of the year. The pace accelerated in 2011, adding 15 collection efforts.





## Activity 2: Training and Education

MFTransparency undertook various initiatives aimed at educating microfinance industry stakeholders about transparent pricing and building a regulatory framework for pricing disclosure. These included trainings, case studies, a resource library, regulator support, a financial education program, and collaboration with other client protection initiatives.

### Trainings and Presentations

During Phase I, MFTransparency delivered a constant stream of training workshops to MFIs, networks, investors and donors, regulators and policymakers and industry support organizations through conference presentations, workshops, meetings and MFTransparency-hosted events. These trainings provided participants with practical knowledge of pricing and best practices for transparency. They supported our in-country data collection work and expanded the industry's growing discussion of responsible pricing to the broad range of stakeholders in the microfinance industry.

The following sections summarize our activity year-by-year, with the hyperlinks in each table providing access to PowerPoints and webinars. The end of the catalogue number indicates the language of the resource — English (EN), French (FR), Spanish (ES), and Portuguese (PO).

#### PRESENTATIONS IN 2007-08

The events in 2007 and 2008 include the initial conceptualization of MFTransparency, the launch presentation in Bali, and the materials used in the Europe fundraising trip.

Hyperlink	Location	Date	Title	Event
--	Santo Domingo	2007-05	The Past, Present, and Future of Microfinance - Are We Now At the Crossroads?	Opportunity Global Conference
<a href="#">PRES-100-EN</a>	Vancouver	2008-02	Pricing, Prevarication, and Profits: Who Will Protect the Poor?	Opportunity Conference
<a href="#">PRES-101-EN</a>	Bali	2008-07	The Global Launch of MFTransparency	Micro Credit Summit
<a href="#">PRES-101-ES</a>	Bali	2008-07	La Iniciativa Global de Transparencia de Precios	Micro Credit Summit
<a href="#">PRES-103-EN</a>	Europe	2008-10	Why We Need Transparent Pricing in Microfinance	Fundraising Visits
<a href="#">PRES-102-EN</a>	Delhi	2008-11	Why We Need Transparent Pricing in Microfinance	ACCESS India Conference



## PRESENTATIONS AND TRAININGS IN 2009

In 2009, MFT held numerous "data launch events", the first session in each country where MFT would bring all the industry together to explain our approach to pricing transparency and answer all questions before MFIs would make their decision to participate. MFT also participated in industry conferences to raise awareness on this topic that was still quite new to most. Events included the Sanabel Conference in Beirut, where MFT won the award for "best presentation"; Microfinance Association events in Berlin and Luxembourg; investor events in London and Washington DC; the Micro Credit Summit in Cartagena; the Boulder Microfinance Training program in Turin; the Inter-American Development Bank ForoMic in Peru; and an IDLO Conference in Rome.

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-201-ES</a>	Lima	2009-03	Por Que Necesitamos Transparencia de Precios	Peru Data Launch
--	Sarajevo	2009-04	Zašto nam su nam potrebne transparentne cijene u mikrofinansijama	Bosnia Data Launch
<a href="#">PRES-202-EN</a>	Beirut	2009-05	Need for Transparent Pricing	Sanabel Conference
--	Berlin & Lux	2009-06	Why We Need Transparent Pricing in Microfinance	Microfinance Associations
<a href="#">PRES-203-EN</a>	Cartagena	2009-06	The Challenge of Maintaining a Double-Bottom Line	Micro Credit Summit
<a href="#">PRES-204-EN</a>	Cartagena	2009-06	Financial Systems for the Majority	Micro Credit Summit
<a href="#">PRES-204-ES</a>	Cartagena	2009-06	Sistemas Financieros para lo Demás	Micro Credit Summit
<a href="#">PRES-205-EN</a>	Phnom Penh	2009-08	Cambodia Data Launch Conference, Session 1	MFT Cambodia Data Launch
<a href="#">PRES-206-EN</a>	Phnom Penh	2009-08	Cambodia Data Launch Conference, Session 2	MFT Cambodia Data Launch
<a href="#">PRES-207-EN</a>	London	2009-07	Implications of non-transparent pricing	Hanson-Wade Conference
<a href="#">PRES-208-FR</a>	Burkina	2009-07	Le Besoin de la Transparence, Burkina, Africa Microfinance	MFT Burkina Data Launch
<a href="#">PRES-209-EN</a>	Dhaka	2009-08	Bangladesh Transparency Training, Session 1	Bangladesh InM Training
<a href="#">PRES-210-EN</a>	Dhaka	2009-08	Bangladesh Transparency Training, Session 3	Bangladesh InM Training
--	Turin	2009-08	The Need for Transparency	Boulder Microfinance Training
--	Washington	2009-09	Why We Need Transparent Pricing in Microfinance	Hanson-Wade Conference
<a href="#">PRES-211-EN</a>	Baku	2009-10	Azerbaijan Data Launch, Session 1	MFT Azerbaijan Data Launch
--	Arequipa, Peru	2009-10	Por Que Necesitamos Transparencia de Precios	IADB ForoMic
<a href="#">PRES-212-EN</a>	Rome	2009-11	Consumer Protection as an Afterthought	IDLO Conference
<a href="#">PRES-213-EN</a>	Webinar	2009-11	MFT's First Data Launch Ever	MFT Webinar

## PRESENTATIONS AND TRAININGS IN 2010

In 2010, MFT continued with both data collection project launch sessions as well as data publishing sessions in Kenya, India, Ecuador, Bolivia, Azerbaijan, Senegal, Malawi, Uganda, Colombia, and Argentina. MFT presented at conferences in Singapore, Washington (2), Delhi, Nepal, Palestine, Nairobi, Paris, Berlin, Luxemburg (2), Bern, San Francisco, Accra, and New York.

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-301-EN</a>	Nairobi	2010-01	Kenya Project Launch, Sessions 1 & 2	Kenya Data Launch
<a href="#">PRES-302-EN</a>	Singapore	2010-01	Risk Management - The Implications of Product Pricing	Hanson-Wade Conference
--	Washington	2010-01	Why We Need Transparent Pricing in Microfinance	USAID Presentation
<a href="#">PRES-303-EN</a>	Delhi	2010-03	Implementing Transparent Pricing in India	Sa-Dhan Conference
<a href="#">PRES-304-EN</a>	Delhi	2010-03	Responsible Microfinance – The Need for Self-Regulation	Sa-Dhan Conference
--	Katmandu	2010-03	Consumer Protection and Transparent Pricing	Nepal Microfinance Network
--	Palestine	2010-03	Building Microfinance Institutions	Palestine Finance Min.
<a href="#">PRES-305-EN</a>	Delhi	2010-04	India Project Launch, Session 1	India Project Launch
<a href="#">PRES-306-EN</a>	Delhi	2010-04	India Project Launch, Session 2	India Project Launch
<a href="#">PRES-307-EN</a>	Nairobi	2010-04	Transparent Pricing & Other Client Protection Initiatives	Micro Credit Summit
<a href="#">PRES-308-ES</a>	Quito	2010-04	Ecuador, Lanzamiento del Proyecto, Sesión 1	MFT Launch, Ecuador
<a href="#">PRES-309-ES</a>	Quito	2010-04	Ecuador, Lanzamiento del Proyecto, Sesión 2	MFT Launch, Ecuador
<a href="#">PRES-310-EN</a>	Par/Ber/Lux	2010-05	Growing Pains – Creating a Path for a Responsibly Industry	Microfinance Associations
--	Bern	2010-06	About MFTransparency	SPTF Conference
--	San Francisco	2010-06	Growing Pains – Creating a Path for a Responsibly Industry	SF Microfinance Club
--	Webinar	2010-06	Azerbaijan Data Publishing	Azerbaijan Data Publishing
--	Webinar	2010-06	Kenya Data Publishing	Kenya Data Publishing
<a href="#">PRES-313-FR</a>	Dakar	2010-07	Mise en oeuvre de la Transparence en Afrique de L'Ouest	BCEAO Data Launch
--	Dakar	2010-07	Pourquoi avons-nous besoin de la Transparence des Coûts en Microfinance	BCEAO Data Launch
<a href="#">PRES-314-EN</a>	Lilongwe	2010-08	Implementing Transparency in the Malawian Microfinance Industry	Malawi Data Launch
--	Lilongwe	2010-08	Why We Need Transparent Pricing in Microfinance	Malawi Data Launch
<a href="#">PRES-315-EN</a>	Lilongwe	2010-08	Financial Literacy & Consumer Protection	Malawi Data Launch
<a href="#">PRES-316-ES</a>	Montevideo	2010-10	Proteccion al Consumidor y Transparencia	IADB ForoMic
--	Montevideo	2010-10	Consumer Protection in Financial Services	IADB ForoMic
--	Washington	2010-10	Growing Pains – Creating a Path for a Responsibly Industry	USAID Presentation
<a href="#">PRES-317-EN</a>	Accra	2010-10	Transparent & Responsible Pricing in Microfinance	AFMIN
<a href="#">PRES-318-ES</a>	Buenos Aires	2010-10	La Importancia del Trato Justo a los Clientes	Network Conference
<a href="#">PRES-319-ES</a>	Buenos Aires	2010-10	La Importancia de la Transparencia de Precios	Network Conference

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-320-EN</a>	Luxembourg	2010-11	Transparent Pricing for Responsible Pricing	eMFP
<a href="#">PRES-321-EN</a>	Washington	2010-11	Newspaper Headline Risk - Transparency in Interest Rates and Returns	SEEP
--	New York	2010-12	Transparent Pricing for Responsible Finance	NYU
<a href="#">PRES-322-EN</a>	Kampala	2010-12	Implementing Transparent Pricing in Uganda	Uganda Data Launch
<a href="#">PRES-323-EN</a>	Kampala	2010-12	Why We Need Transparent Pricing in Microfinance	Uganda Data Launch
<a href="#">PRES-324-ES</a>	La Paz	2010-12	Session 1: La Curva de Costos – Que Impulsa los Precios	Bolivia Data Publishing
<a href="#">PRES-325-ES</a>	La Paz	2010-12	Session 2: Presentacion de Resultados	Bolivia Data Publishing
--	La Paz	2010-12	Session 3: Materiales Educativos	Bolivia Data Publishing
<a href="#">PRES-326-ES</a>	Quito	2010-12	Session 1: La Curva de Costos – Que Impulsa los Precios	Ecuador Data Publishing
<a href="#">PRES-327-ES</a>	Quito	2010-12	Session 2: Presentacion de Resultados	Ecuador Data Publishing

## PRESENTATIONS AND TRAININGS IN 2011

2011 had more presentations than any other year, ranging from investor events in Den Haag, Utrecht, Paris, and New York; microfinance events in Bern, Manila, Dubai, Ethiopia, and Valladolid; regulator training in India, Zambia, Senegal, and Nairobi; a series of webinars for Grameen Foundation; and MFT data events in Ghana, Malawi, Philippines, Senegal, Colombia, Tanzania, Uganda, Mozambique, and Rwanda.

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-401-EN</a>	Den Haag	2011-01	Transparent Pricing for Responsible Pricing	Responsible Investment Forum
	Bern	2011-01	Transparent Pricing for Responsible Microfinance	SPTF Conference
<a href="#">PRES-402-EN</a>	Accra	2011-02	Transparent Pricing in Microfinance	MFT Ghana Project Launch
--	Webinar	2011-02	Malawi Data Launch	MFT Data Publishing, Malawi
<a href="#">PRES-404-EN</a>	India	2011-02	Pricing in the India Market – Explaining the Data	MFT Data Publishing, India
<a href="#">PRES-405-EN</a>	India	2011-02	The Future of Microfinance Pricing	MFT Data Publishing, India
<a href="#">PRES-406-EN</a>	Pune, India	2011-02	Interpreting India Data in the Context of the Global Market	RBI Training
<a href="#">PRES-407-EN</a>	Pune, India	2011-02	Approaches to Transparent Pricing	RBI Training
<a href="#">PRES-408-EN</a>	Pune, India	2011-02	Global Experience in Pricing Regulation in Microfinance	RBI Training
<a href="#">PRES-409-EN</a>	Pune, India	2011-02	Challenges & Benefits of Transparent Pricing	RBI Training
<a href="#">PRES-410-EN</a>	Philippines	2011-03	Global Experience of Pricing Transparency	Philippines Data Launch
<a href="#">PRES-411-EN</a>	Philippines	2011-03	Overview of MFTransparency & the Initiative	Philippines Data Launch
<a href="#">PRES-412-FR</a>	Dakar	2011-03	MFTransparency et l'Initiative sur la Tarification Transparente	BCEAO Data Launch
<a href="#">PRES-413-FR</a>	Dakar	2011-03	Vue d'ensemble de MFTransparency et de l'Initiative	BCEAO Data Launch
<a href="#">PRES-414-FR</a>	Cartagena	2011-03	La Transparence dans la Tarification en Microfinance	Colombia network conference

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-415-ES</a>	Cartagena	2011-03	La Curva de Costos – Que Impulsa los Precios	Colombia network conference
<a href="#">PRES-417-EN</a>	NY	2011-04	WWB Conference, Pricing Transparency & Over-Indebtedness	WWB Conference
<a href="#">PRES-418-EN</a>	Paris	2011-05	Strengthening Pricing Regulation in Microfinance	Proparco Training
<a href="#">PRES-419-EN</a>	Amman	2011-06	APR Training	Sanabel Conference
<a href="#">PRES-420-EN</a>	Utrecht	2011-06	Defining Responsible Practice is Not Easy	NPM Training
<a href="#">PRES-421-EN</a>	Utrecht	2011-06	Finding Our Way Through the Confusion of Pricing	NPM Training
<a href="#">PRES-422-EN</a>	Dar es Salaam	2011-06	Tanzania Project Launch	Tanzania Project Launch
<a href="#">PRES-423-EN</a>	Maputo	2011-06	Zambia Project Launch	Zambia Project Launch
<a href="#">PRES-424-EN</a>	Dubai	2011-06	Transparent Pricing in Microfinance	Dubai Microfinance Club
<a href="#">PRES-425-EN</a>	Manila	2011-07	Manila, APR Training for MCPI	MCPI Conference
<a href="#">PRES-426-EN</a>	Manila	2011-07	Manila, MCPI State of Pricing in Philippines	MCPI Conference
<a href="#">PRES-427-EN</a>	Manila	2011-07	Manila, Transparent Pricing Overview for Asia Network	Asia Microfinance Network
<a href="#">PRES-428-EN</a>	DC	2011-07	Washington, USAID After-Hours, Pricing Transparency for Investors	USAID After Hours Webinar
<a href="#">PRES-429-EN</a>	Uganda	2011-07	Uganda Data Launch	Uganda Data Publishing
<a href="#">PRES-430-PO</a>	Mozambique	2011-08	A experiência Global da Transparência dos Preços	Mozambique Data Launch
<a href="#">PRES-431-PO</a>	Mozambique	2011-08	Mozambique, Panorama da MFTransparency e sua Iniciativa	Mozambique Data Launch
<a href="#">PRES-432-EN</a>	Zambia	2011-08	Zambia, Bank of Zambia Training	Bank of Zambia Training
<a href="#">PRES-433-EN</a>	Webinar	2011-08	Grameen Foundation Bankers without Borders webinar, Session 1	Grameen Foundation
<a href="#">PRES-434-EN</a>	Webinar	2011-08	Grameen Foundation Bankers without Borders webinar, Session 2	Grameen Foundation
<a href="#">PRES-435-EN</a>	Webinar	2011-08	Grameen Foundation Bankers without Borders webinar, Session 3	Grameen Foundation
<a href="#">PRES-436-EN</a>	Dar es Salaam	2011-09	Dar es Salaam, Transparent Pricing Training for Tanzania MFIs	Tanzania Training
<a href="#">PRES-437-EN</a>	Addis Ababa	2011-09	Responsible Pricing in Microfinance	AEMFI Conference
<a href="#">PRES-438-EN</a>	Addis Ababa	2011-09	Transparent Pricing in Africa	Africa Microfinance Conference
<a href="#">PRES-439-EN</a>	Addis Ababa	2011-09	Responsible Pricing in Microfinance	Africa Microfinance Conference
<a href="#">PRES-440-EN</a>	Webinar	2011-09	Rwanda Data Launch	Rwanda Data Launch
<a href="#">PRES-441-EN</a>	Webinar	2011-09	Lancement des Données du Rwanda	Rwanda Data Launch
<a href="#">PRES-442-EN</a>	Nairobi	2011-10	Standards for Responsible Finance	Africa Regulator Event
<a href="#">PRES-443-EN</a>	Nairobi	2011-10	How Microfinance Differs from Traditional Finance	Africa Regulator Event
<a href="#">PRES-444-EN</a>	Nairobi	2011-10	Overview of Basic Interest Rate & Pricing Methods	Africa Regulator Event
<a href="#">PRES-445-EN</a>	Nairobi	2011-10	Calculating Prices – Variety in Official Country Rates	Africa Regulator Event
<a href="#">PRES-446-EN</a>	Nairobi	2011-10	Price Disclosure & Truth-in-Lending Policy	Africa Regulator Event

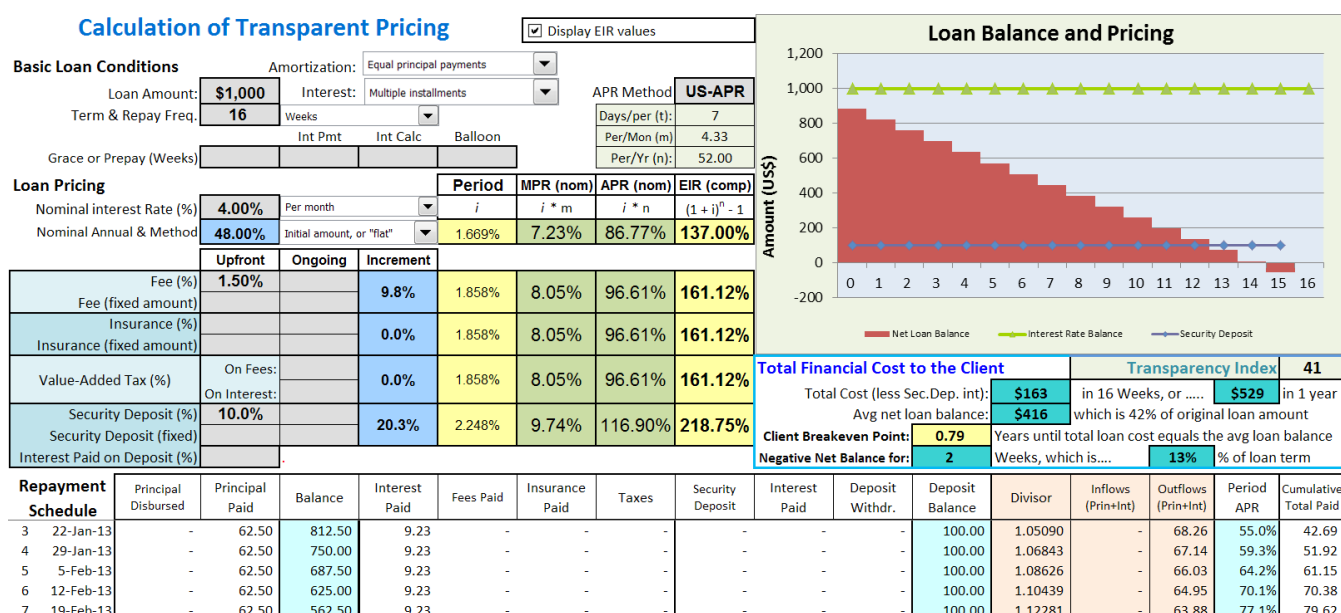
Hyperlink	Location	Date	Title	Event
<a href="#">PRES-447-EN</a>	New York	2011-10	Transparency Initiatives Within Microfinance	Credit Suisse
<a href="#">PRES-448-EN</a>	Valladolid	2011-11	After Transparency, How to Define Fair & Ethical Pricing	Micro Credit Summit
<a href="#">PRES-449-EN</a>	Valladolid	2011-11	IPOs Endanger the Values of Microfinance	Micro Credit Summit

## Significant Tools and Articles

During Phase I, MFT developed some significant tools that were published for use by the industry — the Pricing Calculation Tool and a set of Client Financial Education Tools — and one major paper pulling together learnings from the pricing data — Defining Fair Pricing.

## TRUE PRICING CALCULATION TOOL, VERSION 2

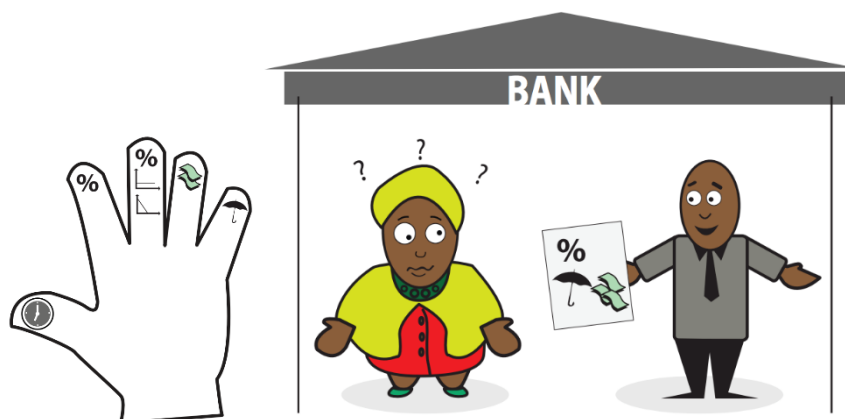
Given the popularity of the original Pricing Calculation Tool, we developed a more extensive [version 2](#) to provide for more versatility of the parameters controlling the creation of the repayment schedule, such as balloon payments, and grace periods on interest charges. We also incorporated an MPR (Monthly Payment Rate) as microfinance interest rates are so commonly quoted as monthly percentages.



## CLIENT FINANCIAL EDUCATION

MFTtransparency developed a set of [financial education materials](#) for borrowers as a pilot program in conjunction with the MasterCard Foundation Program. Initial needs assessment and field testing took place in Malawi and Rwanda, using focus group discussions, one-on-one interviews, a "pricing savvy survey" and other tools to test comprehension of the tools and then explore and develop new communication channels for financial education.

### Sample visuals from MFT's Financial Literacy Training Materials



#### DEFINING FAIR PRICING

As the Micro Credit Summit was organizing their global event in Spain, to take place in November 2011, they asked me to author a paper entitled [Is Transparency Enough? What is Fair and Ethical Pricing?](#) This was the first time MFT would publicly state a position on this topic. The timing coincided with my resignation, to take place in November, and the board was searching for a new CEO. Therefore, I agreed to write the paper as my own personal view on the subject, not that of MFTTransparency.

*MFTTransparency provided our team of investigative reporters with invaluable help that allowed Business Week to make sense of the complex financing schemes that make microfinance so expensive in Mexico—and so difficult for the average consumer to understand.*

Gerri Smith, Mexico Bureau Chief, Business Week

The topic was clearly challenging, with nothing previously having been done on the subject. We now had data upon which to begin this discussion, but as I worked on the paper, I realized that the topic could not be fully answered in a single paper without addressing the topic of fair profits. The final paper ended up as Part I of a planned three-part series:

- [Part I](#) provides an overview of pricing and a detailed analysis of delivery costs including a breakthrough on determining "where the curve starts".
- Part II, to be written in 2015, will provide a detailed examination of product-level pricing, based on seven years of data collection in 29 countries.
- Part III will then explore the related topic of the client's ability to pay, and pull together the three topics of what MFIs need to charge, what MFIs really charge, and what clients can pay and still benefit from the loan.

The issue of MFI profit levels is the web that captures these three areas and invites a decision on the ethics of pricing and profits. MFT began to address the topic of profits in 2011 (see page 85) and would accelerate discussion on this topic in Phase III (page XXX).

### MFTransparency Resource Catalogue

MFT produced a constant stream of materials, all distributed without cost via our website. We maintained a news/blog section with hundreds of entries and a resource section with 213 materials in a range of languages. The tables below list the Resource Catalogue items, and for convenience as a reference table, resources from 2012-14 are also included here. Note that the actual structure of the Resource Catalogue was designed in 2012, and the items were less organized in 2009-2011.

The Resource Catalogue is divided into: **Briefings**, **External Publications**, **Media**, **Organizational Materials**, **Reports**, and **Tools**. Another category, **Presentations**, is also a part of the Resource Catalogue but were shown on the tables earlier in this section. Note that each item has a hyperlink which can be used to access the complete document from the MFTransparency website.

#### BRF BRIEFINGS

Briefings include short discussion pieces, short articles on the topic of understanding pricing, examples of policies and standards used in various countries, and conference materials. Many of these resources were developed in multiple languages.

100 Discussion Pieces		Date	Eng	Spa	Fre	Por	Oth
BRF-101	<a href="#">Need for Transparency</a>	2011-07	x	x	x	x	
BRF-102	<a href="#">What the World is Saying about Pricing Transparency</a>	2011-05	x	x			
BRF-103	<a href="#">The Birth of Transparent Markets - Industry Reactions to Pricing Data Launches</a>	2011-02	x				
BRF-104	<a href="#">How MFIs Can Benefit from Participation</a>	2011-05	x	x	x	x	
BRF-105	<a href="#">Putting Transparency into Practice</a>	2011	x				
BRF-106	<a href="#">Ten Steps to Pricing Transparency</a>	2012-07	x				
200 Understanding Pricing							
BRF-201	<a href="#">Introduction to Transparent Pricing in Microfinance</a>	2010-12	x	x			
BRF-202	<a href="#">Challenge of Understanding Pricing of Microloans</a>	2011-06	x				



<b>100 Discussion Pieces</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
BRF-203	<a href="#">Formulas and Approaches Used to Calculate True Pricing</a>	2011-05	x	x			
BRF-204	<a href="#">MFTransparency Interest Rate Formulas</a>	2011-06	x	x	x	x	
BRF-205	<a href="#">Flat versus Declining Balance Interest Rates What is the Difference</a>	2011-09	x				
BRF-206	<a href="#">Independent Study Course-Building the Foundation for Understanding Transparent Pricing, Session 1</a>	2011-04	x	x			
BRF-207	<a href="#">The Pricing Transparency Index</a>	2013-03	x		x		
<b>300 Policies and Standards</b>							
BRF-301	<a href="#">Standardized Loan Documentation in Bosnia and Herzegovina</a>	2011-10	x				
BRF-302	<a href="#">Outlawing Flat Interest in Cambodia</a>	2011-10	x				
BRF-303	<a href="#">Cambodian Law on the Calculation of Interest Rate on Microfinance Loans</a>	2011-10	x		x	x	
BRF-304	<a href="#">Model Repayment Schedule</a>	2011-09	x		x	x	
BRF-305	<a href="#">Reserve Bank of Malawi on Pricing Disclosure</a>	2011-10	x				
BRF-306	<a href="#">Pricing Disclosure Policy Matrix</a>	2011-10	x		x	x	
BRF-307	Transparent Loan Documentation in Bolivia	2012-03	x		x		
BRF-308	Transparent Loan Documentation in Uganda	2012-03	x		x		
<b>400 Conference Materials</b>							
BRF-401	<a href="#">ARE Resources Guide, Nairobi</a>	2010-10	x		x		

#### EXT EXTERNAL PUBLICATIONS

This short section includes one publication MFT jointly produced with the Smart Campaign.

		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
EXT-101	<a href="#">Responsible Pricing - The State of the Practice</a>	2010-05	x	x	x		



## MED MEDIA

This section contains video productions, and a few audio pieces.

100 General		Date	Eng	Spa	Fre	Por	Oth
MED-101	<a href="#">Interviews - If No Transparency</a>	2008-10	x				
MED-102	<a href="#">Interviews - What is the Interest Rate</a>	2008-10	x				
MED-103	<a href="#">Interviews - Why Transparency</a>	2008-10	x				
MED-104	<a href="#">Interview - Consumer protection, Why transparency is key</a>	2011-02	x				
MED-105	<a href="#">How Much is Too Much?</a>	2012-06	x				
MED-106	<a href="#">Webinar - Understanding the Price Curve in Microfinance</a>	2012-09	x				
MED-107	<a href="#">Intro to the MFTransparency Website</a>	2013-07	x				
200 Client Literacy		Date	Eng	Spa	Fre	Por	Oth
MED-201	<a href="#">Financial Literacy Kit of Images</a>	2011-12	x				
MED-202	<a href="#">FinLit Jingle, English</a>	2011-12	x				x
MED-203	<a href="#">FinLit Public Service Announcement, Example 1</a>	2011-12	x				x
MED-204	<a href="#">FinLit Public Service Announcement, Example 2</a>	2011-12	x				x
MED-205	<a href="#">FinLit Public Service Announcement, Example 3</a>	2011-12	x				x
MED-206	<a href="#">FinLit Public Service Announcement, Example 4</a>	2011-12	x				x
MED-207	<a href="#">FinLit Public Service Announcement, Example 5</a>	2011-12	x				x

## ORG MFTRANSPARENCY INFORMATION

This section contains specific information about MFTransparency. The **General** section contains useful, short explanatory information about MFT. **Instructions and Manuals** are publications directed to those providing data to MFT. **Major Publications** is solely information *about* MFT, distinct from other sections in the Resource

Catalogue labeled Major Publications. **Project and Event Information** provides announcements about MFT's work in different projects.

<b>100 General</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
ORG-101	<a href="#">MFTransparency Two-pager</a>	2012-06	x	x	x	x	
ORG-102	<a href="#">MFTransparency Endorser statement</a>	2011-05	x	x	x	x	
ORG-103	<a href="#">MFTransparency Partners</a>	2011-09	x	x	x	x	
ORG-104	<a href="#">MFTransparency in a Snapshot</a>	2013-08	x		x		
<b>200 Instructions and Manuals</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
ORG-201	<a href="#">Instructions for submitting data to MFTransparency</a>	2012-07	x		x		
ORG-202	<a href="#">MFTransparency Data Refreshing Instructions for MFIs</a>	2012-05	x				
<b>300 Major Publications</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
ORG-301	<a href="#">MFTransparency Newsletter</a>	2010-12	x	x			
ORG-302	<a href="#">MFTransparency Annual-Report</a>	2010-11	x				
ORG-303	<a href="#">MICROFINANCE-TRANSPARENCY-2009-990</a>	2009	x				
ORG-304	<a href="#">MICROFINANCE-TRANSPARENCY-2010-990</a>	2010	x				
ORG-305	<a href="#">MICROFINANCE-TRANSPARENCY-2011-990</a>	2011	x				
ORG-306	<a href="#">MICROFINANCE-TRANSPARENCY-2012-990</a>	2012	x				
ORG-307	<a href="#">MICROFINANCE-TRANSPARENCY-2013-990</a>	2013	x				
ORG-308	<a href="#">MFTransparency Anniversary Newsletter</a>	2013	x				
<b>400 Project and Event Information</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
ORG-402	<a href="#">MFT enabling APR &amp; EIR Initiative</a>	2011-05	x		x	x	
ORG-404	<a href="#">MFTransparency Latin America Project Overview</a>	2011-02	x	x			
ORG-405	<a href="#">Transparent Pricing Initiative in West Africa 2011-02</a>	2011-02	x		x	x	
ORG-406	<a href="#">Transparent Pricing Initiative in India</a>	2011-02	x				
ORG-407	<a href="#">Transparent Pricing Initiative in the Philippines Overview</a>	2011-06	x				

100 General		Date	Eng	Spa	Fre	Por	Oth
ORG-409	<a href="#">MFTransparency Transparent Pricing Initiative in Ethiopia</a>	2011-08	x				
ORG-410	Transparent Pricing Initiative in South Africa Project Overview	2011-05	x				
ORG-411	African Microfinance Pricing Transparency Leadership Forum	2011-09	x		x	x	
ORG-412	Transparent Pricing Initiative in Morocco Overview	2013-03	x		x		
ORG-413	Transparent Pricing Initiative in Pakistan Overview	2013-03	x				

## RPT REPORTS

This section contains preliminary **Country Surveys** that MFT produced before working in a country. The **Country Pricing Reports** are very important documents that were developed after data was collected in a variety of countries. MFT has one published **Pricing Certification**, for Grameen Bank (see page 39). **Conference Reports** were developed after the completion of conferences organized by MFT. The final section contains two **major articles and papers** developed by MFT.

100 Country Surveys		Date	Eng	Spa	Fre	Por	Oth
RPT-101	<a href="#">Country Survey, Ethiopia</a>	2011-12	x				
RPT-102	<a href="#">Country Survey, Ghana</a>	2011-12	x				
RPT-103	<a href="#">Country Survey, Malawi</a>	2011-04	x				
RPT-104	<a href="#">Country Survey, Mozambique</a>	2011-12	x				
RPT-105	<a href="#">Country Survey, Rwanda</a>	2011-12	x				
RPT-106	<a href="#">Country Survey, Tanzania</a>	2011-12	x				
RPT-107	<a href="#">Country Survey, Uganda</a>	2011-12	x				
RPT-108	<a href="#">Country Survey, Zambia</a>	2011-06	x				
200 Country Pricing Reports		Date	Eng	Spa	Fre	Por	Oth
RPT-201	<a href="#">India Pricing Data Report</a>	2011-01	x				
RPT-202	<a href="#">Philippines Pricing Data Report</a>	2011-12	x				
RPT-203	<a href="#">Ghana Pricing Data Report</a>	2013-10	x				

<b>100 Country Surveys</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
RPT-204	<a href="#">Malawi Pricing Data Report</a>	2013-10	x				
RPT-205	<a href="#">Rwanda Pricing Data Report</a>	2013-10	x		x		
RPT-206	<a href="#">Tanzania Pricing Data Report</a>	2013-10	x				
RPT-207	<a href="#">Uganda Pricing Data Report</a>	2013-10	x				
<b>300 Certifications</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
RPT-301	<a href="#">Grameen Bank Pricing Certification Report</a>	2011-01	x				
<b>400 Conference Reports</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
RPT-401	<a href="#">ARE Forum Full Report</a>	2012-01	x				
RPT-402	<a href="#">ARE Forum Summary Report</a>	2012-01	x				
RPT-403	<a href="#">ARE Resource, Financial Education Heard at the Forum</a>	2012-01	x				
RPT-404	<a href="#">ARE Resource, Main Challenges Solutions</a>	2012-01	x				
RPT-405	<a href="#">ARE Resource, Stakeholder Roles and Responsibilities</a>	2012-01	x				
RPT-406	<a href="#">ARE Resource, The Debate Over Official Pricing Disclosure Formulas</a>	2012-01	x				
<b>500 Major articles and Papers</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
RPT-501	<a href="#">Is Transparency Enough - What is Fair and Ethical in Pricing?</a>	2011-10	x				
RPT-502	<a href="#">TRAPS - The MFT Pricing Supervision Handbook</a>	2013-06	x		x		

## TOOL VARIOUS TOOLS

The Tools section contains software products and resources for consumer literacy.

<b>100 Software</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
TOOL-101	<a href="#">Calculating Transparent Prices Tool, v2.22</a>	2012-05	x	x	x	x	
<b>200 Consumer Literacy</b>		<b>Date</b>	<b>Eng</b>	<b>Spa</b>	<b>Fre</b>	<b>Por</b>	<b>Oth</b>
TOOL-201	<a href="#">Consumer Literacy Adaptation Guide</a>	2011-12	x		x	x	
TOOL-202	<a href="#">Consumer Literacy Trainers Manual</a>	2011-12	x		x	x	

### Activity 3: Regulator & Policymaker Support

In 2009 we doubted that, as a young start-up, MFT would have much credibility with regulators. However, our confidence grew rapidly as in each country we met with regulators to explain the work we would be doing in the country. In virtually every country we were received with interest and enthusiasm. Though experts in formal finance, they were universally unaware of many of the pricing practices used in microfinance. Many had not heard of flat interest, and most did not know about the practice of compulsory deposits (i.e., forced savings). We often had regulators ask to be kept informed of the progress of the project, and agree to speak at the opening of our pricing conferences. We even had instances where regulators offered to accompany our staff on data gathering visits.

In 2010, we worked to collect and synthesize regulation from the countries we were working in, and in 2011 we started to systematically deliver full and multi-day training to regulators. The following were the main events of 2011.

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#### **Reserve Bank of India (RBI), February 2011**

India's microfinance industry went thru the Andhra Pradesh crisis in 2010, following the IPO of SKS (see page 28). MFTTransparency had already collected the pricing data of most of the industry prior to the crisis, but we were waiting for the appropriate time to publish the information. MFT remained in dialogue with the RBI throughout 2010, and when the Malagum Report was released in January 2011, we were immediately invited to deliver a full day of training to the senior management of the RBI and the College of Agricultural Banking the following month. The material we used was helpful as the RBI developed policies to ban flat interest, limit fees, and prohibit compulsory deposits. After the new pricing regulation, India transformed into a country with some of the most transparent prices in the world.

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#### **West Africa Economic Monetary Union (WAEMU), March 2011**

In partnership with Grameen Crédit Agricole, MFT hosted a special event in Dakar, Senegal in March 2011 that focused on the policy framework for pricing disclosure among the eight countries in the West Africa Economic Monetary Union (WAEMU, also known by the French acronym BCEAO). In addition to training and presentations by representatives of MIX, CGAP, UNCDF, and WAEMU, MFT faced the sensitive task of sharing what we had learned from our Transparent Pricing Initiative in West Africa (see page 36). Although there had been a Usury Law in place for many years, with an accompanying formula for calculating the APR, the MFIs and even the regulators themselves did not know how to apply that legal formula for price calculation. Many of the MFIs were actually in violation of the usury law, but solely because they were not aware of how to calculate their true price in order to compare it to the usury law. The regulators had never applied the legislation nor trained the MFIs on how to comply with it. This training event was the first of a series that would continue later in 2011 (see below) and in 2013 (see page 85).

### Bank of Zambia, August 2011

At the request of the Bank of Zambia, MFT provided a full day of training on price calculation, price interpretation, and model truth-in-lending legislation from other countries.

### Africa Regulator Event, October 2011

MFT received funding from the Agence Française de Développement (AFD) and from UNCDF to conduct a multi-year African Regulator Project. The project included more than 20 countries in Sub-Saharan Africa, and aimed to support regulators and policy makers in developing policy for pricing disclosure and client protection. The project brought together the regulators and policymakers of African microfinance markets to share lessons learned and best practices for facilitating pricing disclosure. The first convening was a major African Regulator Event held in Nairobi, Kenya in October 2011, with 135 people gathered for three full days of training and discussion. MFT developed educational materials and practical tools to be used in this training and also in two smaller follow-up regional events that would be held in 2013 (in Phase II). Refer to RPT-401 through RPT-406 in the Resource Catalogue for these materials.

### Activity 4: Industry Voice for Transparent Pricing

Throughout the entire period, MFTransparency collaborated closely with other client protection initiatives in the microfinance industry, including the Social

Performance Task Force, Smart Campaign, MIX-SPTF social reporting program, and the microfinance ratings agencies. MFT was the designated implementing agent of the Client Protection Principles for Transparency and Responsible Pricing. We also contributed data and guidance to the pricing components of the MIX-SPTF social performance reports and the microfinance rating agencies' reports as well, helping to build standards in reporting. In addition we collaborated on pricing reports such as the Smart Campaign's "[Responsible Pricing: State of the Practice](#)". We participated on joint panels on consumer protection in more than a dozen conferences.

*A market in which all institutions make the real cost of credit transparent, encourages institutions to further develop their efficiency in order to achieve higher levels of profitability. This also promotes competition in the supply of credit-related services and thus an improvement in customer service.*

Erlan Llanos, Investment Officer, LOCFUND, Bolivia

## PLANNING MFTRANSPARENCY'S NEXT STEPS AMIDST CRISIS

Concurrent with our first, three-year operational phase, the staff and board worked together on a business plan for the next three years, 2012-15. We had met operational targets in all four core activity areas by:

- collecting a significant amount of data;
- training a wide variety of stakeholders — both for the industry and regulators;
- producing resources targeted to clients, MFIs, analysts, and regulators; and
- engaging with the industry in issues of responsible practice.

We still had serious struggles with the website, but had adapted methods to collect and process data to circumvent the websites weaknesses. The website was solely a publication platform, and the lack of integration meant extra work for our staff. We had developed a parallel website based on WordPress for everything but the pricing data.

MFT had survived the first financial crisis of late 2009 (page 27) and attracted a diverse selection of funders, as shown in the table below. However, all contracts were relatively short-term, and we were in constant need to seek new funding and to comply with reporting requirements.

### MFT Funding Summary

Key: \$ (<\$50,000) \$\$ (\$50,000-\$100,000) \$\$\$ (>\$100,000)

Donor	Date Approved	2008	2009	2010	2011	2012
Private Donors	Jun-08	\$	\$			
Oikocredit	Oct-08	\$				
Hope International	Oct-08	\$				
DOEN Foundation 1	Oct-08	\$\$	\$\$			
MICRONED I	Dec-08	\$	\$\$\$	\$\$\$		
CGAP	Mar-09		\$\$			
CitiFoundation I	Nov-09		\$			
Deutsche Bank	Dec-09		\$			
Bangladesh InM	Sep-09		\$			
Country Sponsors	Sep-09		\$			
KfW / GiZ	Oct-09		\$	\$		
Data Launch Sponsors	Oct-09		\$			
Ford Foundation	Jan-10		\$\$	\$\$\$		
Lux West Africa	Feb-10			\$\$\$		
MicroNED II	Mar-10			\$\$		
India (SCB, Dell, Citi, MFIN)	Mar-10			\$\$\$		
MasterCard Foundation	Apr-10			\$\$\$	\$\$\$	\$\$\$
DOEN Foundation II	Apr-10			\$\$\$	-	
Lux Philippines	Sep-10			\$\$	\$\$	
CitiFoundation II	Feb-11			\$\$	\$\$	
Grameen Credit Agricole	Feb-11			\$\$		
AFD	Jun-11				\$\$\$	\$\$\$
UNCDF	Jun-11				\$\$	
ICCO	Nov-11				\$	
Hivos	Nov-11				\$\$	\$

### Staffing Crisis of Q4 2011

MFT built up its board from 3 members in 2008 to 5 members in 2009 and to 7 members in 2010. We had also gradually expanded our core staff as funding allowed. We started with only two staff at the beginning of

2009, and the COO was added by mid-2009. In 2010, we added an Accountant, a Communications Associate, and a second website developer. However, the first website developer left before the end of the year. We hired a CFO in 2011 and were preparing for the first time to build and fund an organization with adequate central office capacity when our second crisis occurred in Q4 2011.

MFT Staffing Position	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
CEO	x	x	x	x	x	x	x	x	x	x	x	
COO		x	x	x	x	x	x	x	x	x	x	
Accountant							x	x	x	x	x	
CFO										x	x	x
IT Manager	x	x	x	x	x	x	x					
IT Assistant						x	x	x	x	x		
Comm. Assoc					x	x	x	x	x	x	x	

During the first crisis (Q4 2009), Chuck Waterfield had agreed to return and serve as the CEO since MFT had no funding to seek an outside CEO. MFT had returned to sound footing during 2010 and 2011, so in May 2011 he communicated to the board his intention to step down. The board had 6 months' notice to find and recruit a replacement, but despite advertising the position, few serious candidates emerged. After interviews of several candidates, the Board was unable to find a suitable replacement before the November 2011 deadline. The consensus was that MFT was an organization that was easier to admire and support from outside than to manage, given its lack of a head office, lack of administrative support staff, and tenuous funding situation.

As November approached, the uncertainty had led a number of core staff to resign, as shown in Q4 2011 of the table above. The board decided to designate one of the remaining senior staff as Acting CEO, but by that time, there was only one person left — the CFO — and with the other resignations, she declined the position and submitted her own resignation.

The Board was faced with a second crisis. The first crisis (Q4 2009) was a situation with staffing but no financing; this second crisis (Q4 2011) was a situation with financing but no core staffing. MFT still had some contractors in the field and some contractual obligations to complete, but not a single person to manage the organization. The Board decided to request that Waterfield return to CEO on a short-term contract to finish out MFT's remaining contractual obligations and close down the organization.

Phase I had been interesting and exciting, but the optimism in early 2011 converted to an abrupt collapse at the end of 2011 that nobody had anticipated.



## IN SUM — PROGRESS, SETBACKS, AND NEW LEARNINGS

Following the strong support from MFT’s “testing the waters” launch in Bali in 2008, Phase I proved to be a continually suspenseful period, with successes, surprises, and crises.

Before starting in the field, MFT developed a list of four core activities and seven strategic principles that proved to be remarkably stable throughout not just Phase I, but their entire lifetime.

Operations in 2009 began with a pilot in Peru, an experience that taught the “experts” at MFT that there was much more to be learned – pricing strategies are under constant innovation by lenders as they compete with each other and react to government regulations. Peru data was never published, but smooth operations in Bosnia & Herzegovina and in Cambodia led MFT to regain its footing and confidence.

However, by the end of 2009, MFT was experiencing a serious cash flow crisis and nearly closed. 2010 started with support coming quickly from several new funders as well as an invitation to collect pricing data in the largest market in the world – India. Ironically, MFT had all the pricing data complete for India just as the Andhra Pradesh crisis began. It wasn’t until the storm cleared in January 2011 that MFT had the opportunity to publish the data and then have a full-day analysis event with the RBI as they deliberated what changes to make in Indian pricing to make it more transparent and responsible.

In 2011, MFT focused most of its data collection efforts in Africa, finding that in the majority of countries of East and Southern Africa pricing was very high, very complex, and very opaque. In addition, few countries showed any semblance of market pricing, with prices instead looking to be arbitrarily set by management by their own internal criteria. In parallel, we were collecting prices in West Africa, where we found the prices to be consistently much lower. However, many of the prices were still in violation of the WAEMU Usury Law, a law known by all but understood by none. Dialogue with the stakeholders, including organizing a conference to discuss the problem, could reach no resolution to the problem and MFT decided to not publish the data.

South Africa became our first failure, as MFIs refused to cooperate in any fashion. In addition, we learned the dangers of self-regulatory bodies, as the NCR had created policies to intentionally hide the true prices charged in the country.

We worked in four countries of Latin America in 2011, with the highlight being 100% participation of the MFIs in Bolivia, and the biggest disappointment being the decision of the MFIs in Argentina to boycott our transparency project.

In 2010 and 2011, media pressures motivated two MFIs to request pricing certifications from MFT. LAPO’s certification showed extremely high prices ranging from 99% to 144%, but LAPO continues to attract social investors. Grameen Bank’s certification showed the lowest and most transparent prices in Bangladesh, 20% Full APR with a Transparency Index of 100, but the government still proceeded to seize control, motivated at least in part on their statements that Grameen was sucking the blood from the poor.

In 2011 we also collected data in another high-profile country – Philippines. Prices are the highest of any large scale microfinance operations we analyzed, with more than half of clients paying between 100% and 200%. The prices are also extremely opaque, with the country’s Transparency Index being 34. We also

experienced how large MFIs can choose to decline pricing transparency and not lose their relationships with their networks and funders. MFT found more evidence for the “Suffer if I do, safe if I don’t” decision-tree faced by MFIs when deciding to participate in voluntary transparency.

With more data, MFT’s educational events and materials began to expand. MFT’s Resource Center grew to several hundred presentations, webinars, and documents. We also held four significant regulator training events in 2011, including a three-day event attended by 135 people from 22 countries.

MFT documented where the price curve begins, and published a major paper entitled “Is Transparency Enough? What is Fair and Ethical Pricing?”

Despite the major efforts and accomplishments of the three years, Phase I came to an abrupt end in Q4 2011 when MFT found itself with no senior management staff. Reluctantly, the board made the decision to spend the next 8 months closing out contracts and shutting down the organization.

## 2012-13 — PHASE II: SUB-CONTRACTED DATA COLLECTION

Gathering help from our friends keeps us going, but MFIs put up more resistance. Analyzing years of data brings out sobering lessons of pricing.

### Outline of Chapter

#### **To Close? Or to Restructure and Continue?**

- Three New Partnerships
- Reengineering the Website and Database
- Improving the Data Collection Tool

#### **Activities and Results of Phase II**

- Activity 1: Pricing Disclosure
  - Partnership Approach
  - Challenging Efforts Required to Obtain Refreshed Data
  - Participation Rates
  - Efforts to Acquire Data
- First Time Data Collection in Two Countries
  - Pakistan
  - Morocco
- Summary
- Activity 2: Training and Education
  - Presentations and Trainings in 2012-13
  - Country Pricing Reports
- Activity 3: Regulator and Policymaker Support
- Activity 4: Industry Voice for Responsible Practice

#### **In Sum – Progress, Setbacks, and New Learnings**

After continued progress throughout Phase I, the crisis in November 2011 was an entirely unexpected complete reversal in direction. Staff resignations avalanched until every top staff person had either already left or had tendered their resignation. MFTransparency was in the midst of several contracts, so the Board requested that Chuck Waterfield return as CEO for 8 months to guide the remaining contractors and field staff as MFT finished out those contracts. He was then to close down the organization in mid-2012.

## TO CLOSE? OR TO RESTRUCTURE AND CONTINUE?

MFTransparency began to notify funders and key stakeholders in January 2012 as to the news. Responses were universally supportive, urging MFT not to close. Our funders offered to rework our existing contracts so that they could be carried out with our smaller team. Some of our funders invited us to submit new proposals to fund a restructured approach that would keep MFT alive, and several organizations stepped forward to ask if they could assist with data collection. These responses caused the Board to step back and reevaluate — should we close or restructure? We decided to cautiously explore these options and see where they would lead.

Within the first few months of 2012, a viable approach emerged that would allow MFTransparency to stay very small, rather than attempt to rebuild staffing. We had very limited funding, and it was evident that we would not seek nor receive significant funding to rebuild a large organization. We settled on an approach to work in partnerships, primarily focus on refreshing countries that were already published, rework the website and database, and improve the Data Collection Tool (DCT) rather than attempt to collect data via the website.

### Three New Partnerships

Three organizations offered to do data collection under MFT's guidance and submit the pricing data to MFT for publishing:

- **Pakistan Microfinance Network (PMN):** [PMN](#) approached MFT in December 2011 for initial discussions. MFT would train the PMN staff and monitor their work as they collected data for the first time in Pakistan. MFT would also travel to Pakistan for two events, one at the start of the process and one at the completion. Although this was our first partnership proposal, funding delays resulted in the contract for this to start in October 2012.
- **MFIN Network - India:** [MFIN](#) contacted MFT in January 2012 asking for MFT to support their staff as they collected refreshed the data for the India market that had been published a year previously. Though MFIN staff would do all the data collection, data would be submitted to MFT for review, verification, and publishing on MFT's website. The partnership began in July 2012.
- **Planet Rating (PR):** [Planet Rating](#) was in a unique position. They were the only other organization that had experience doing systematic calculation of true prices, incorporating those calculations in their ratings reports for many years. They also had field staff scattered in various regional offices, and though those field staff were often fully engaged in generating a ratings report, they had time available between ratings trips where they could contact MFIs to collect pricing data. The partnership began in July 2012, with PR refreshing data for a range of countries and assisting with first-time data collection in Morocco.

MFT started 2012 with just 3.5 people remaining on the team. With the decision to restructure and continue, MFT added two more people that year and remained at that still modest level for most of 2013. However,

through that period there would be as many as 10 others working indirectly with MFT, on a part-time basis through the partnerships.

### Reengineering the Website and Database

If we were to continue with data collection, we needed to address our chronic website and database problems. We made the decision to completely start over on both, going with an entirely new website based entirely on WordPress, incorporating the database into the WordPress tools. As explained on Page 39, we had been continually struggling with a database system broken up into 70 different tables using an SQL platform. Website data entry had never functioned adequately, and throughout Phase I we had to collect data using an Excel-based tool and then manually reentered the data into the SQL database.

Since the Excel Data Collection Tool (DCT) had served us well, we reached the decision to continue to use it to collect data. This would avoid problems of MFIs with internet connectivity problems as well as dramatically reducing the amount of web-based database development time. We restructured the entire database to be just 5 tables, all generated by the Excel DCT. Publishing was done by exporting the 5 tables as CSV files and then uploading those files to the website, using an elegant method by which a set of Dropbox folders did all the work for us — members of our team would place the CSV files in the Dropbox folders which would then automatically synchronize to the server and be displayed on the website. The new website and database took about 6 months to develop and worked very smoothly right from the very beginning. The design allowed us to gradually add new features and improvements piece by piece with minimal amounts of work. Whereas the original website and database had two full-time developers, the new tools required only one person working half time and served us flawlessly for all of Phase II and Phase III.

### Improving the Data Collection Tool

With the decision to use the DCT as the sole means of collecting data, we decided to do a major redesign of the tool to improve the flow of information and the appearance to the user. It expanded from just collecting data to now being the tool to collect, evaluate, clean and publish the data. All actions were performed inside of a single Excel file. We focused on completing the new tool and develop training materials in the first half of 2012 before beginning to train the many new data analysts that would be assigned by the partners.

## ACTIVITIES AND RESULTS OF PHASE II

Continuing forward in smaller form, working with partnerships, with limited funding, we still had significant outputs in all four activity areas.

### Activity 1: Pricing Disclosure

Due to our staffing and funding limitations, we primarily focused on refreshing existing country data, as that was expected to be less costly. We added just two new countries — Pakistan and Morocco. We also were

aware that maintaining pricing information was at least as important as expanding our coverage. Refreshing data would also enable us to evaluate if transparent pricing had influenced pricing decisions by management. As explained below, we found many unexpected challenges, causing us to reevaluate future options for continuing with transparent pricing.

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### Partnership Approach

During Phase II, the three different partners allowed us to test three different working relationships:

- **Paid partner:** Planet Rating (MFT secures funding and hires Planet Rating)
- **Unpaid partner:** MFIN India (MFIN seeks their own funding and no money passes between MFIN and MFT. MFT covers its expenses through other funding sources.)
- **Paying partner:** Pakistan Microfinance Network (PMN seeks funding and hires and pays MFT for assistance.)

There were positive and negative aspects of each of the three partnerships. To summarize:

- **Planet Rating:** Our partnership with Planet Rating had a slow start while determining which analysts in which offices would be able to allocate time to this project. We did eventually settle on a team of their analysts that worked well, though there were periodic scheduling challenges as those analysts juggled their MFT work with their other assignments. A clear advantage of this partnership was that the analysts were experienced in collecting and analyzing financial data and accustomed to dialoguing with MFI management.
- **MFIN:** All expectations were that data collection would move smoothly and quickly, but this was not the case. We had agreed that MFIN would first refresh prices for their membership (about 45 MFIs) and then continue on to refresh data from the other 40 MFIs who had previously submitted data to MFT. Data for the MFIN membership took over a year to collect and complete, and work never was initiated for the non-MFIN members. The data met MFT's quality standards, providing important, new pricing data for loans going to 20 million people. It also demonstrated how the pricing in India had become much more transparent after the changes made following the 2010 crisis (see page 28), but due to the long delays in collecting data, MFT and MFIN decided to terminate the partnership arrangement.
- **PMN:** Although discussions started in early 2012, PMN did not receive funding until a year later, and data collection then took nearly a full year. The PMN staff worked very conscientiously, staying in dialogue with the MFIs and answering all their questions. However, over the year of time, analyst turnover required more training time and additional time delays in finishing the data collection.

In all three cases, staff from the partner organizations were allocating a portion of their work time to the pricing transparency project. This always creates scheduling and prioritization challenges, and because MFT was the outside secondary supervisor who was also not physically present, it would sometimes result in pricing work getting delayed. In two of the partnerships, we also dealt with staff turnover created extra training work for MFT and additional time delays.

In all three partnerships, we were alert for the potential of conflicts of interest. Planet Rating is a for-profit ratings agency that needs to attract and retain work from the same MFIs covered in the pricing project. Both MFIN and PMN are member organizations, where the membership controls the board, and where any disagreements with MFT's approach might result in pressure from the board, or in members leaving the organization. Although the partners sometimes advocated that we reach compromises with the MFIs on some issues, these same negotiations took place in Phase I, when MFT was directly collecting data. Dialogue is a necessary condition in data collection. The partners fully involved MFT in all of these situations and final decisions were always the responsibility of MFT. None of the final decisions were noticeably different from compromises MFT agreed to in Phase I. In summary, we believe all three partners operated in good faith and avoided the dangers of conflicts of interest.

### Challenging Efforts Required to Obtain Refreshed Data

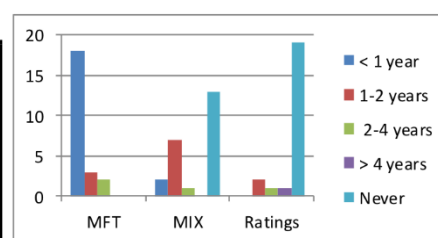
#### PARTICIPATION RATES

We originally had projected that MFIs would cooperatively refresh their pricing data, as they had already agreed to publish their prices the first time. We also had designed the systems to be efficient for updating data, so we expected fast and inexpensive refreshing processes. Reality proved to be the opposite. MFT did collect refreshed pricing data, but in most countries it took a substantial effort, and in virtually every country, participation rates dropped.

This is not to say that pricing data collection failed, or that the partnership approach wasn't working. In fact, a comparison of participation rates relative to the Ratings Agencies and to MIX showed impressive figures for MFT in the African countries where we were working. The first table below shows that in Uganda, only 18 of 23 MFIs refreshed their pricing data (the left columns). That is disappointing, but in comparison, MIX has recent data from only two of these MFIs, with 8 others having data several years old, and 13 never having given data to MIX. Of the 23, only 4 have been rated, and none of those in the past year. Even though MFT's participation rates dropped, MFT still had more recent data than other sources.

**Transparency Participation of MFIs in Uganda**

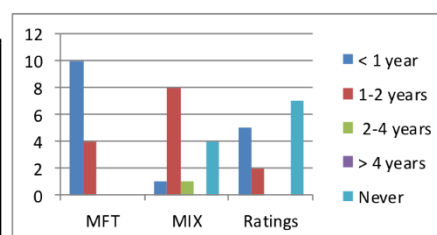
Age of Data	MFT		MIX		Ratings	
< 1 year	18	78%	2	9%	0	0%
1-2 years	3	13%	7	30%	2	9%
2-4 years	2	9%	1	4%	1	4%
> 4 years	0	0%	0	0%	1	4%
Never	0	0%	13	57%	19	83%
<b>Totals</b>	<b>23</b>		<b>23</b>		<b>23</b>	



The next table shows that Rwandan MFIs are a bit more prompt with MIX and the Ratings Agencies, with over half participating in the last two years, but again MFT has significantly more participation and more recent participation than either. Still, only 10 of the 14 MFIs agreed to refresh their pricing data, or just 71%.

### Transparency Participation of MFIs in Rwanda

Age of Data	MFT		MIX		Ratings	
< 1 year	10	71%	1	7%	5	36%
1-2 years	4	29%	8	57%	2	14%
2-4 years	0	0%	1	7%	0	0%
> 4 years	0	0%	0	0%	0	0%
Never	0	0%	4	29%	7	50%
Totals	14		14		14	



Participation rate comparisons are likely different in some of the more mature microfinance markets, with MFIs possibly being more current on their ratings certification and their MIX data. However, there is another fundamental issue to consider — a rating once every few years may be sufficient for an MFI, and MIX data can also tolerate some aging, but pricing data is more time sensitive. When comparing prices of 50 MFIs, all of the pricing data should be from the same point in time, not spread over several years. If transparent pricing cannot be collected for a large portion of the market at frequent time intervals and with limited lag periods between collection and publishing, the pricing data becomes much less useful.

### EFFORT TO ACQUIRE DATA

Transparency was an industry expectation, but MFIs were not willing to invest much time submitting their pricing data. Knowing this, we continuously improved the usability of the Data Collection Tool (DCT). When an MFI is refreshing data, they receive a DCT with their previous data already loaded into the tool. We provide them with instructions and offer them assistance via Skype calls or email. They need only review the data and update what has changed, and then submit new sample repayment schedules. The process has been confirmed to take no longer than 2 hours' time of a senior credit manager and only a few minutes of top management's time. We anticipated 3 or 4 points of contact per MFI before getting back the completed DCT, and we expected the refreshing process to be done within a few weeks of initiation.

### Refreshing Level of Effort, as of July 2013

Country	Project Start (Initial emails sent)	Publication	Duration in weeks	Number of MFIs contacted	% of MFIs who re- submitted	Av. No of emails per MFI	Av. No of logged contact attempts per MFI	Av. Total Commun. per MFI	Total Commun. For the Country
Uganda	28-May-12	11-Mar-2013	41	23	78%	48	16	64	1,472
Rwanda	04-Jun-12	14-May-2013	49	14	71%	47	20	67	938
Malawi	07-Nov-12	14-May-2013	27	10	80%	64	N/A	N/A	640
Ghana	07-Feb-13	17-Jun-2013	19	41	85%	31	11	42	1,722
Tanzania	07-Feb-13	17-Jun-2013	19	15	67%	40	10	50	750

#### Key:

**Duration** - Weeks between sending out the DCT and publishing the data. Does not include prep time of research, etc.

**Av. No. of emails per MFI** – figures taken directly from email accounts. This figure includes emails from both parties. Does not include other contact attempts e.g phone calls, skype sessions, etc.

**Av. No. of Logged contact attempts per MFI** – figures taken from the MFT Progress Sheets. Analysts log important contacts. There is a small percentage of duplication with the email count.

We planned the refreshing process to take a few weeks per country, but it took between 19 and 49 weeks per country (see table above). We found that we had to exchange not 3-4 emails per MFI but an average of



between 31 and 64 emails per MFI. We also logged contact attempts that include phone calls as well as significant emails (meaning a modest amount of duplication with the previous count) and found between 10 and 20 contact efforts per MFI. Despite all logic, the amount of staff effort required to simply refresh data of an MFI that is already published on our website was equal to the amount of time to collect data initially.

Though the previous table showed country aggregate info, it is also useful to examine activity at the MFI level. The following table shows the contact record for each MFI in Uganda. The fastest to refresh were Silver Upholders (a total of 20 contacts), and Ebo SACCO (26 contacts). On the other extreme, Centenary Bank is the largest MFI in the country and it took 203 emails, 43 contact efforts, and 11 months before we received their complete data. Opportunity-Uganda has 25,000 clients, and it took 156 emails, 39 contact attempts, and 11 months before we received complete data. Three of the MFIs who had participated previously declined.

Below is a similar table for the MFIs in Tanzania. Average communication efforts were lower in Tanzania, but note that 5 of the 15 MFIs declined to refresh their data. BRAC - Tanzania did later submit their data after the Tanzania refreshed data was published. Also, Vision Fund is not listed because they declined to participate in the first round of data collection in 2010. They did eventually provide first-time data after we had published the refreshed data for the others.

Of the 13 efforts to refresh pricing data, two countries went smoothly and promptly – Cambodia and Bosnia & Herzegovina. All other countries took large amounts of effort and time, raising serious doubts that MFT would be able to sustain transparent pricing.

Uganda				
Initial Emails Sent	May 28, 2012			
Publication	March 11, 2013			
Duration (days)	287			
MFI	Number of Emails in email account	Number of contact attempts in log	Total Communications	Did they Refresh?
APAS	17	18	35	No
BRAC UGA	25	5	30	Yes
Centenary Bank	203	43	246	Yes
Ebo SACCO	16	10	26	Yes
Equity Bank	10	8	18	No
Finance Trust	72	19	91	Yes
FINCA Uganda	45	13	58	Yes
Five Talents	55	19	74	Yes
Gatsby Microfinance	34	9	43	Yes
Habitat for Humanity	29	6	35	Yes
Hofokam	30	9	39	Yes
Kacita	37	14	51	Yes
MADFA SACCO	39	16	55	Yes
MED NET / Vision Fund	21	16	37	Yes
Opportunity	156	39	195	Yes
RUCREF	22	13	35	No
Rushere SACCO	48	7	55	Yes
SAO Kampala	41	20	61	Yes
SilverUpholders	16	4	20	Yes
Hunger Project	35	9	44	Yes
UGAFODE	47	16	63	Yes
Wakiso	37	24	61	Yes
Y-SAVE	64	20	84	Yes
<b>Total</b>	<b>1099</b>	<b>357</b>	<b>1456</b>	
Av. Per MFI	48	16	63	

Tanzania				
Initial Emails Sent	February 7, 2013			
Publication	June 17, 2013			
Duration (days)	130			
MFI	Number of Emails in email account	Number of contact attempts in log	Total Communication	Did they Refresh?
Access Bank	26	7	33	Yes
BELITA	18	15	33	Yes
BRAC - Tanzania	21	10	31	No
F & K Finance Ltd	2	10	12	No
Fanwika (FMFC)	63	12	75	Yes
FINCA Tanzania	36	10	46	Yes
K-Finance	22	8	30	Yes
Mbinga Community Bank	32	9	41	Yes
Mwanga (MCBL)	69	16	85	Yes
National Microfinance Bank	30	15	45	Yes
Opportunity Tanzania	50	15	65	Yes
SELFINA	23	11	34	No
Tujijenge	27	9	36	Yes
Victoria Finance	12	7	19	No
YOSEFO	39	16	55	No
<b>Total</b>	<b>470</b>	<b>170</b>	<b>640</b>	
Av. Per MFI	31	11	43	

## First-time Data Collection in Two Countries

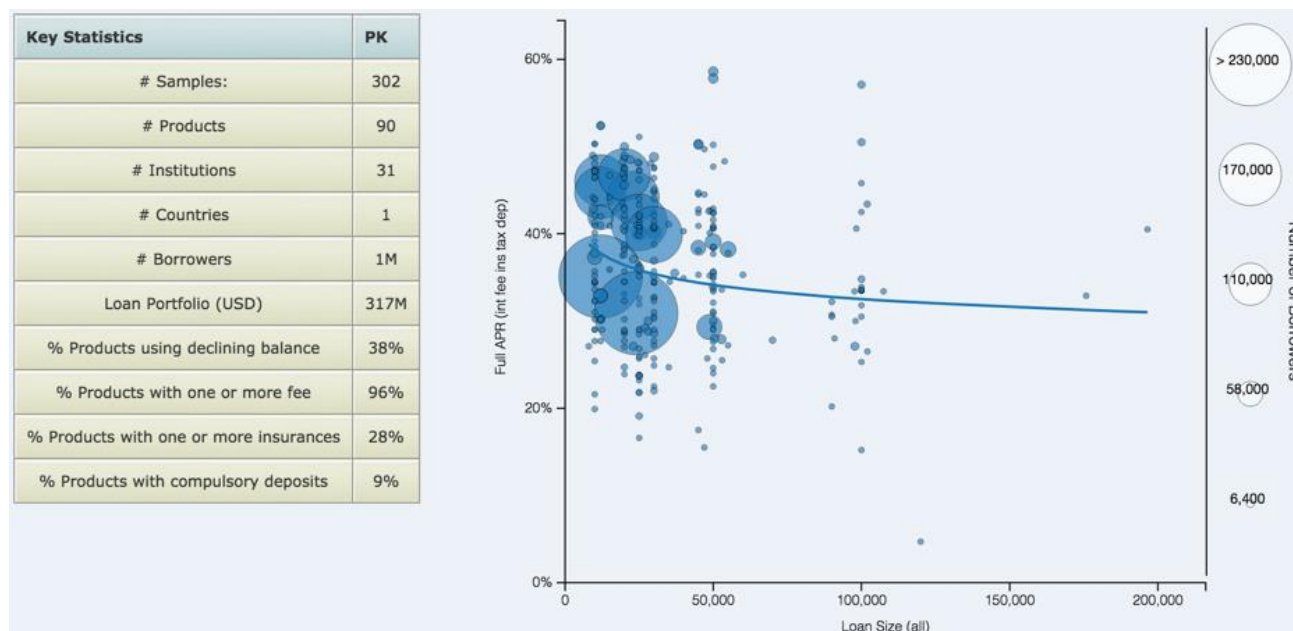
During Phase II we tried first-time data collection in Pakistan, in collaboration with our data collection partner, PMN, and in Morocco, working together with Planet Rating. Although both countries were published, each had its challenges.

### PAKISTAN

PMN scheduled a conference to begin collecting data in April 2013, and two MFT staff traveled to Islamabad to present at the conference and to train the PMN data analysts. Data collection went slower than anticipated, as many of the MFIs expressed reluctance to publish their prices. The PMN staff worked very conscientiously, staying in dialogue with the MFIs and answering all their questions. To bring in the last participants, MFT and PMN agreed to not use MFT's Transparency Index with the Pakistan data. Over the year of time, there was turnover in the analysts, requiring more training time and additional time delays in finishing the data collection. Ultimately getting 31 MFIs to participate, only five of the top ten MFIs had provided data by February 2014, when MFT travelled again to Islamabad for the data publishing event. Kashf Foundation later decided to submit their data in May 2014. It was a two full years from when the discussions began, the data collection process took a lot of effort, and there were some significant hold-outs, as shown in the table on the following page.

The prices shown below demonstrate that the Pakistan market targets very small loans, but even doing so manages to keep the prices very reasonable relative to other markets for loans of this size.

**Figure 8: Pakistan Pricing Analysis**



### Participation in Pakistan First-Time Data Collection, 2013

Institution	# Borrowers	Portfolio (US\$)	Products	Participating Since	Institution	# Borrowers	Portfolio (US\$)	Products	Participating Since
<a href="#">KBL</a>	522,855	92,107,420	6	2013-Jun	<a href="#">Wasil</a>	6,190	1,130,299	N/A	Non-Participating
<a href="#">KF</a>	306,500	34,786,000	3	2013-June	<a href="#">NRDP</a>	6,184	1,521,972	3	2013-Jul
<a href="#">NRSP</a>	301,161	46,322,395	N/A	Non-Participating	<a href="#">GBTI</a>	6,100	669,000	3	2013-Nov
<a href="#">Akhwat</a>	200,930	19,942,586	N/A	Non-Participating	<a href="#">Mojaz</a>	5,849	965,604	2	2013-May
<a href="#">TMFB</a>	197,811	79,381,020	7	2013-May	<a href="#">OPD</a>	5,540	686,503	2	2013-May
<a href="#">ASA</a>	179,588	21,108,968	3	2013-May	<a href="#">VDO</a>	3,900	489,000	3	2013-Jun
<a href="#">NRSP-Bank</a>	171,718	46,161,984	N/A	Non-Participating	<a href="#">SVDP</a>	3,900	811,000	13	2013-Aug
<a href="#">FMFB</a>	163,544	38,481,323	9	2013-May	<a href="#">AGAHE</a>	3,825	416,605	1	2013-May
<a href="#">UPAP</a>	150,932	15,414,601	N/A	Non-Participating	<a href="#">SRSP</a>	3,822	261,318	2	Non-Participating
<a href="#">TRDP</a>	86,322	8,771,071	3	2013-May	<a href="#">SWWS</a>	3,148	292,708	N/A	Non-Participating
<a href="#">PRSP</a>	75,656	9,907,176	3	2013-May	<a href="#">Baidarie</a>	2,891	482,841	N/A	Non-Participating
<a href="#">BRAC</a>	56,359	8,425,349	N/A	Non-Participating	<a href="#">Micro Options</a>	2,500	663,000	3	2013-May
<a href="#">SRSO</a>	48,053	6,763,350	3	2013-May	<a href="#">BLCC</a>	2,404	254,285	N/A	Non-Participating
<a href="#">OCT</a>	44,213	5,054,057	N/A	Non-Participating	<a href="#">SRDO</a>	2,000	451,000	4	2013-Jun
<a href="#">FINCA</a>	38,839	19,225,446	3	2013-May	<a href="#">MES</a>	1,617	448,731	N/A	Non-Participating
<a href="#">SSF</a>	37,322	3,249,346	3	2013-May	<a href="#">BEDF</a>	1,400	209,000	3	2013-May
<a href="#">RCDS</a>	35,552	4,856,122	4	2014-May	<a href="#">Sayya</a>	1,077	169,976	N/A	Non-Participating
<a href="#">DAMEN</a>	35,185	7,150,864	1	2013-May	<a href="#">KCDO</a>	800	94,000	1	2013-May
<a href="#">JWS</a>	24,256	3,700,520	1	2013-May	<a href="#">MRDO</a>	641	6,987,642	N/A	Non-Participating
<a href="#">CSC</a>	19,106	3,288,534	1	2013-May	<a href="#">Buksh F</a>	615	107,657	N/A	Non-Participating
<a href="#">OLP</a>	18,484	2,369,645	3	2013-May	<a href="#">APMBL</a>	500	260,000	1	2013-Oct
<a href="#">FFO</a>	15,646	1,887,286	2	2013-May	<a href="#">KK</a>	N/A	N/A	N/A	Non-Participating
<a href="#">AMRDO</a>	11,800	1,517,000	3	2013-Dec	<a href="#">PPCBL</a>	N/A	N/A	N/A	Non-Participating
<a href="#">POMFB</a>	11,405	1,621,707	6	2013-May	<a href="#">Saath</a>	N/A	N/A	N/A	Non-Participating
<a href="#">SDF</a>	10,670	852,564	3	2013-Jul	<a href="#">SSSWA</a>	N/A	N/A	N/A	Non-Participating
<a href="#">Asasah</a>	8,967	1,039,229	N/A	Non-Participating	<a href="#">STP</a>	N/A	N/A	N/A	Non-Participating
<a href="#">APNA</a>	8,606	3,252,501	N/A	Non-Participating	<a href="#">WSO</a>	N/A	N/A	N/A	Non-Participating

### MOROCCO – THE CHALLENGES OF TRANSPARENCY IN OLIGOPOLIES

Morocco was the only first-time country that we tested with the Planet Rating partnership. They had a staff person based in the country, and we hoped for a reasonably smooth process, but had concerns about the very small market of only 11 MFIs, especially as market share is dominated by just three very large MFIs. The three could decide to block publication for the entire country by not cooperating, and that is what nearly happened.

We held an initial conference in March 2013, with good attendance, and positive feedback from everyone. As we distributed the data collection tools, four of the smaller eight MFIs promptly submitted data, while four declined to do so. Of the top three, AMF (31% of the market) submitted and approved their data within the first few months. Al Amana, the largest MFI (43% of the market), initially submitted their data but then declined to publish the prices. FONDEP (18%) did not submit data.

With two of the large MFIs blocking publication, this left us with only 40% of the market covered. Discussions went on for months, without us being able to publish data and we ultimately decided to post a notice on the

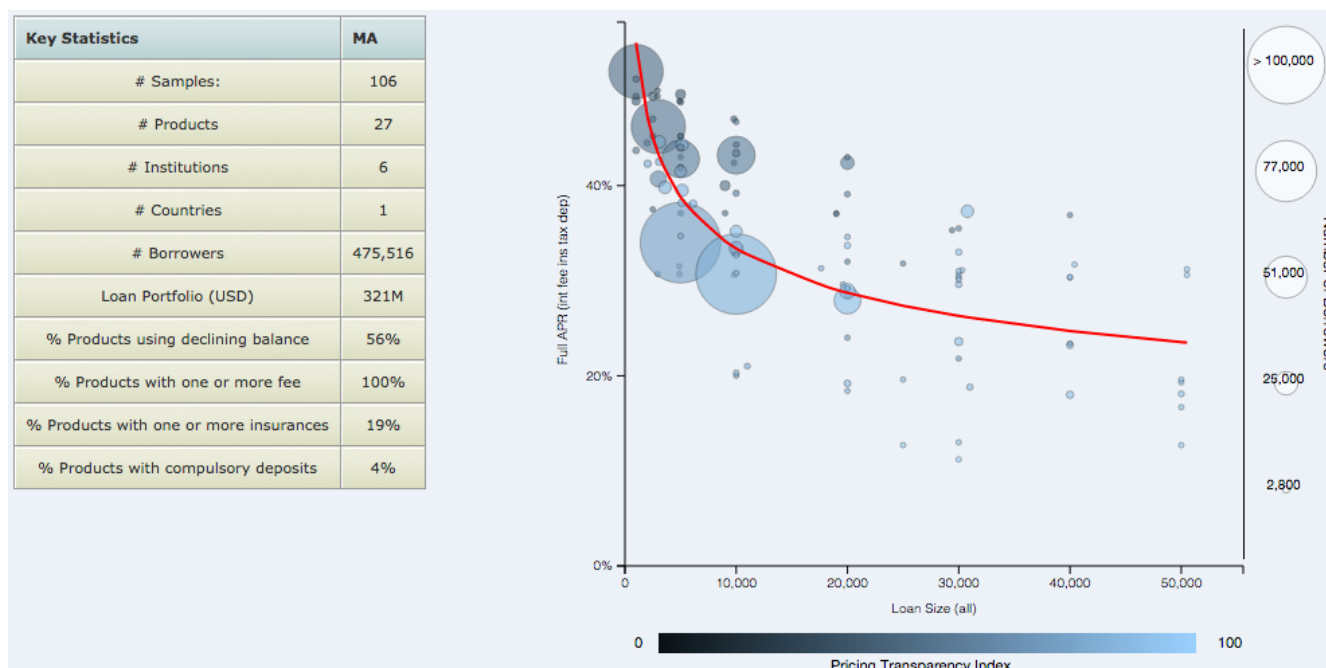
website that none of the Morocco data was being published because of FONDEP and Al Amana declining. FONDEP then promptly and very cooperatively agreed to submit their data, bringing us 60% of market share, a very low number, but this represented 95% of the market share other than Al Amana.

If we didn't publish it would be a clear case of a single MFI blocking transparency of an entire country. So we decided to publish. Shortly thereafter, Al Amana contacted us indicating they would reconsider publishing data, and we again collected their information and calculated their prices. However, once again after reviewing their pricing, they decided to decline publishing.

The frequent challenge for MFT has been that large MFIs who have a good reputation in the industry and are reasonably transparent with their financial statements often make the decision not to be transparent on their pricing. Doing so, their reputation seems not to suffer terribly, and their relations with stakeholder and funding networks continue forward. The “safe if I don’t” message gains ground if there are no serious consequences for those choosing to hide their prices, and the industry's broadly stated goal that we practice transparency will continue to be unmet. The table to the side shows the statistics and participation decisions for the Morocco market.

MOROCCO INSTITUTIONS					
Institution	# Borrowers	Portfolio (US\$)	Products	Transp. Index	Participating Since
Al Amana	307,274	N/A	N/A	N/A	Non-Participating
AMF	220,100	173,814,000	9	74	2013-May
FONDEP	128,949	106,544,937	6	84	2014-Mar
Al Karama	15,845	N/A	N/A	N/A	Non-Participating
AMSSF	13,700	9,079,000	5	42	2013-Apr
INMAA	10,494	4,436,410	4	52	2013-Apr
ARDI	10,118	4,805,317	2	53	2013-Apr
AMOS	2,700	716,000	2	50	2013-May
AIMC	1,329	N/A	N/A	N/A	Non-Participating
ATILMC	1,266	N/A	N/A	N/A	Non-Participating
Tawada	N/A	N/A	N/A	N/A	Non-Participating

The graph below shows the pricing data for Morocco. Even though very limited data, the pricing does remarkably follow the pricing curve more closely than in any other country where MFT collected data. The prices are relatively reasonable relative to the loan amounts, when compared to other countries, but given that this data only represents 60% of the market in Morocco, we cannot reach a conclusion on the market as a whole.

**Figure 9: Morocco Pricing Analysis**

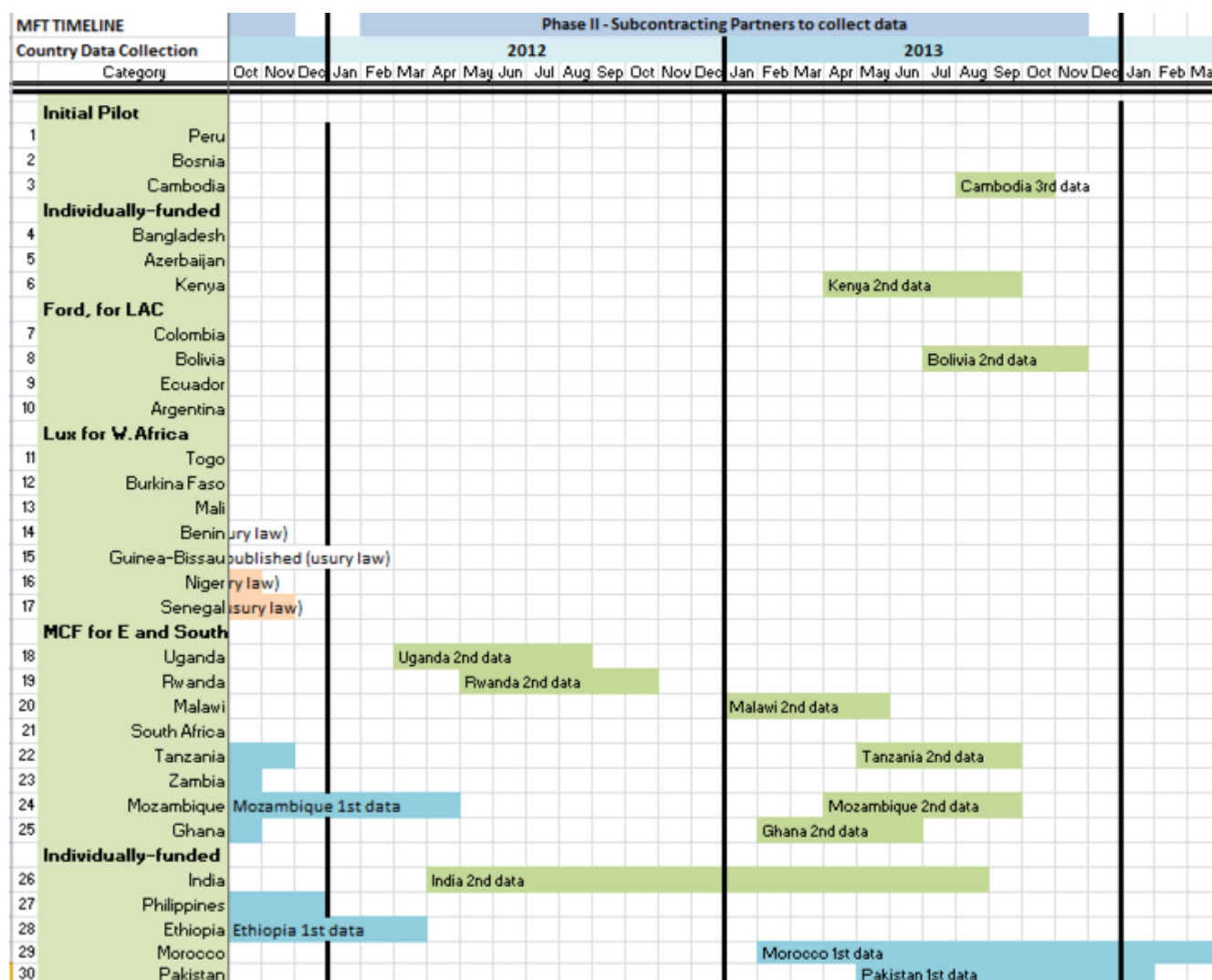
### Summary of Activity 1

The table below summarizes the activity for Phase II (2012-13), shaded light blue, in the context of the activity of Phase I (2009-11). We had a total of 12 collections, with 2 new countries and 11 refreshed countries, resulting in publishing for all 12 collections. This brought our totals to 33 publishings for 44 collections, with the 11 unpublished efforts being due to usury laws (7), poor data (2), and MFI boycotts (2).

### Countries with Active Data Collection Efforts

Year	First-time Countries	Refreshed Countries	Total Collections	Unpublished			
				Published	Poor Data	Usury Laws	MFI Boycott
2009	6	-	6	4	2	-	-
2010	10	1	11	8	-	2	1
2011	13	2	15	9	-	5	1
2012	-	3	3	3	-	-	-
2013	2	7	9	9	-	-	-
Total	31	13	44	33	2	7	2

The following timeline shows the activity during the Phase. In the first months, we finished and published Mozambique and Ethiopia with MFT collecting data directly, before beginning the partnership approach. First-time collection is shown in blue, and refreshed data is shown in green. Cambodia was notably the first and only country where MFT collected and published data three times.



In summary, data collection in Phase II was effective but it was far from efficient, giving clear indication that MFT cannot sustain high participation rates, cannot attain frequent refreshings and cannot approach financial sustainable in its current configuration. Our original goal to have continual refreshing of data is not taking place. There is no revenue stream beyond donors sponsoring a country, and as long as transparency remains a voluntary choice of MFIs there are no means to maintain high participation — participation percentages are dropping and will continue to drop. Broad-based country-level efforts require legislation, and legislation is a slow moving country-by-country decision, and non-standardization of the pricing formula defined under each country's legislation is a given, resulting in data that is very challenging or impossible to normalize.

If data were used in enough ways by enough stakeholders and influenced enough decisions, it could arguably justify the effort and the subsidy to relentlessly collect it by our current procedures, but evidence indicates slow progress in these areas. Data collection has been central to MFT's work, but management recognized that Phase II would need to come to an end and we would have to investigate if there were any remaining options.



## Activity 2: Training and Education

In Phase II we did a complete reworking of the MFT website. The new design presented our materials in two areas - [News](#) and [Resources](#). We added multi-language support to the website, by incorporating Google Translate. We also added an array of useful searching tools to access all the information, such as the [Resource Table page](#) and the search box shown to the right.

We added a very powerful and innovative [Pricing Analysis Tool](#) that allowed graphical and statistical analysis to all pricing data, including historic data. A basic example is shown on the following page, but many more features can be enabled using the buttons and dropdowns.

We also developed specialized materials for regulators, as will be discussed in the next section.

### Trainings and Presentations


We continued to host or attend many industry events.

In 2012, MFT held a series of data publishing webinars for African countries and then began a series of presentations and webinars addressing the topic of responsible pricing and the companion issue of responsible profit, incorporating a variety of new material not used in Phase I presentations.

In 2013, MFT provided some extensive training to social funders and held multi-day conferences for African regulators. In addition, MFT was invited to give a TEDx talk in September 2013.

The tables on the following pages provide a full list of the presentations, including hyperlinks to download most of them.

SEARCH



☐ Any
 ☒ Search only Resources

**Popular Resources**
☐ Popular Resources

**Topic**
☐ Compartamos
 ☐ Country Reports
 ☐ Financial Literacy
 ☐ India
 ☐ IPOs
 ☐ MFT Approach
 ☐ Microfinance Market
 ☐ Need for Transparency
 ☐ Policy for Transparency
 ☐ Responsible Finance
 ☐ SKS
 ☐ Understanding Prices
 ☐ Understanding the Curves

**Experience Level**
☐ 1 Quick Overview
 ☐ 2 Deeper Understanding
 ☐ 3 Professional Level
 ☐ Advanced

**Language**
☐ English
 ☐ French
 ☐ Kinyarwanda
 ☐ Other Languages
 ☐ Portuguese
 ☐ Spanish

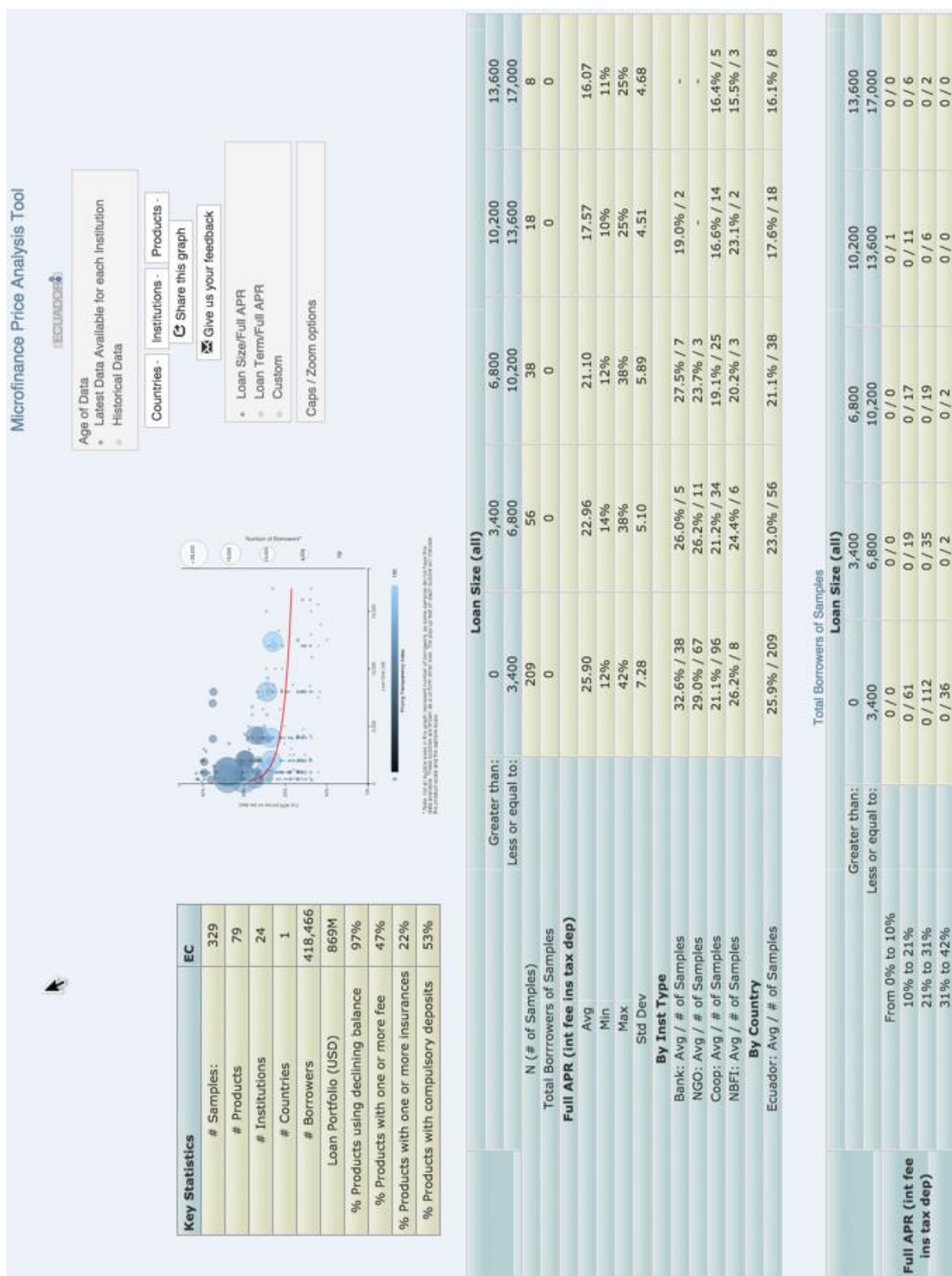
**Resource Type**
☐ Briefings
 ☐ External Publication
 ☐ Media
 ☐ MFT Organization Mat'l
 ☐ Miscellaneous
 ☐ Presentations and Webinars
 ☐ Reports
 ☐ Tools

**Date range**

From

to

Figure 10: Example of Pricing Analysis Tool





## PRESENTATIONS AND TRAININGS IN 2012

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-501-EN</a>	Webinar	2012-01	Ethiopia Data Publishing Webinar	Ethiopia data publishing
<a href="#">PRES-502-EN</a>	Webinar	2012-01	Zambia Data Publishing Webinar,	Zambia data publishing
<a href="#">PRES-503-EN</a>	Webinar	2012-01	Tanzania Data Publishing Webinar	Tanzania data publishing
<a href="#">PRES-504-EN</a>	Webinar	2012-01	Ghana Data Publishing Webinar	Ghana data publishing
<a href="#">PRES-505-EN</a>	Webinar	2012-02	Mozambique Data Publishing Webinar,	Mozambique data publishing
<a href="#">PRES-506-EN</a>	New York	2012-03	New York, Balancing Impact with Profits through Responsible Pricing	Columbia Univ
<a href="#">PRES-507-EN</a>	Philadelphia	2012-03	The Need for Policies to Motivate Responsible Practice	Upenn Microfinance Conference
<a href="#">PRES-508-EN</a>	New York	2012-04	Pricing, Profits, Financing, & Responsible Practice	Columbia Univ Microlumbia
<a href="#">PRES-509-EN</a>	San Diego	2012-04	Transparent Pricing Essential for Responsible Practice	San Diego Microfinance Club
<a href="#">PRES-510-EN</a>	Webinar	2012-04	Now to Understand the Prices we Charge	SPTF Essential Skills
<a href="#">PRES-511-EN</a>	Jordan	2012-06	Growth, Profitability, & Compensation – How Much is Too Much	SPTF
<a href="#">PRES-512-EN</a>	Frankfurt	2012-07	Transparency in Microfinance – The Client Perspective	Frankfurt University
-	Frankfurt	2012-07	The Role of Governments in Promoting Transparent Pricing	Frankfurt University
<a href="#">PRES-513-EN</a>	Paris	2012-07	Overview of Interest Rate & Pricing Methods	Proparco Training
<a href="#">PRES-514-EN</a>	Paris	2012-07	The Price & Cost Curves	Proparco Training
<a href="#">PRES-515-EN</a>	Webinar	2012-09	Understanding the Price Curve in Microfinance	Webinar
<a href="#">PRES-516-EN</a>	Webinar	2012-11	Webinar on the Basics of Pricing	PIIF
-	Washington	2012-12	Profit, Growth, and Compensation: At What Level do these start Encroaching on the Social Good?	SEEP Luncheon

## PRESENTATIONS AND TRAININGS IN 2013

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-601-EN</a>	Vienna	2013-01	Pricing Transparency and the Microloan Pricing Curve	UNCITRAL Colloquium,
<a href="#">PRES-602-EN</a>	Webinar	2013-01	Now to Understand the Prices we Charge	SPTF Essential Skills
-	Bad Boll, Germany	2013-02	The Need for More Transparency	Oikocredit Conference
<a href="#">PRES-606-EN</a>	Utrecht	2013-02	Pricing and Profits, Part 1	NPM Training

Hyperlink	Location	Date	Title	Event
<a href="#">PRES-607-EN</a>	Utrecht	2013-02	Pricing and Profits, Part 2	NPM Training
<a href="#">PRES-608-EN</a>	Utrecht	2013-02	Pricing and Profits, Part 3	NPM Training
<a href="#">PRES-603-FR</a>	Casablanca	2013-04	Transparent Pricing Initiative in Morocco Launch Event Session 1	Morocco data launch
<a href="#">PRES-604-FR</a>	Casablanca	2013-04	Transparent Pricing Initiative in Morocco Launch Event Session 2	Morocco data launch
<a href="#">PRES-605-FR</a>	Casablanca	2013-04	Transparent Pricing Initiative in Morocco Launch Event Session 3	Morocco data launch
-	Islamabad	2013-04	Transparent Pricing in Microfinance	Pakistan Data Launch
-	Islamabad	2013-04	Overview of Transparent Pricing and the MFT Initiative	Pakistan Data Launch
-	Islamabad	2013-04	Client Protection - The Need for More Transparency	Pakistan Data Launch
-	Webinar	2013-05	Should we Set Responsible Profit Limits?	SPTF
-	Panama	2013-06	Prices and Profits - Who Watches Which, and How do they Relate?	SPTF
<a href="#">PRES-609-EN</a>	Nairobi	2013-06	Session 1, What Prices do We See	Africa Regulator Event
<a href="#">PRES-610-EN</a>	Nairobi	2013-06	Session 2, Understanding Pricing	Africa Regulator Event
<a href="#">PRES-611-EN</a>	Nairobi	2013-06	Session 3, Price Cap Approaches	Africa Regulator Event
<a href="#">PRES-612-EN</a>	Nairobi	2013-06	Client Communications	Africa Regulator Event
-	Nairobi	2013-06	Closing, The Fog is Lifting	Africa Regulator Event
PRES-613-EN	Washington	2013-09	Pricing Transparency in the Microfinance Industry	Oikocredit Conference
-	Webinar	2013-09	Unraveling the Mysteries of Microfinance Interest Rates	SHNU Webinar
	TEDx	2013-09	<a href="#">Ending World Poverty? Or Profiteering from the Poor?</a>	TEDx Talk
PRES-614-EN	Amsterdam	2013-11	Advances on Transparency - Now for the Next Stage	NPM Event
PRES-615-EN	Arusha	2013-12	After Transparency, How to Define Responsible Pricing	Africa MF Conference
	Den Haag	2013-11	After Transparency, How to Define Responsible Pricing	FMO Training

## Country Pricing Reports

A large amount of refreshed data in Phase II gave MFT the opportunity to begin analyzing five years of pricing information and convert it into education resources. Small staff size and limited funding constrained how much could be done, but our new database allowed us to develop a very efficient means to pull in data and do a standardized analysis.

With refreshed data from a large number of Sub-Saharan African countries, MFT worked together with Planet Rating to develop a series of [Country Pricing Reports](#), each containing a wealth of MFI and product-level pricing analysis never before seen in microfinance.

Following are several examples and highlights to demonstrate what can be found in the reports. The table on the next page below shows an analysis by pricing components for Ghana, one of the least transparent countries covered by MFT. As shown, 90% of products, directed to 95% of the clients, are charged flat interest. Fees are paid by 95% of clients, with 54% of clients paying two fees. Insurance is mandatory for 70% of clients, and compulsory deposits are required for 84% of clients. When the pricing factors are examined in combination, 38% of clients are charged flat interest and all three additional pricing components — fees, insurance, and deposits. Thirty-six percent of clients buy products with a Transparency Index under 25, and 85% of clients have a Transparency Index under 50. The rule on pricing in Ghana seems arguably to be "I'll do it since everyone else is doing it".

The graph to the side shows a fascinating correlation between true price and transparency of the price. The data shown is for Uganda, but the pattern looks highly similar for nearly all of the countries. Products with a low price have less motivation to hide that price and therefore earn a high Transparency Index and are on the bottom-right of the chart. Using flat interest drops the TI close to 50, and is used on higher priced products to hide that higher price. Add fees, insurance and deposits to increase and hide the price even more, and you find the products on the top left of the graph.

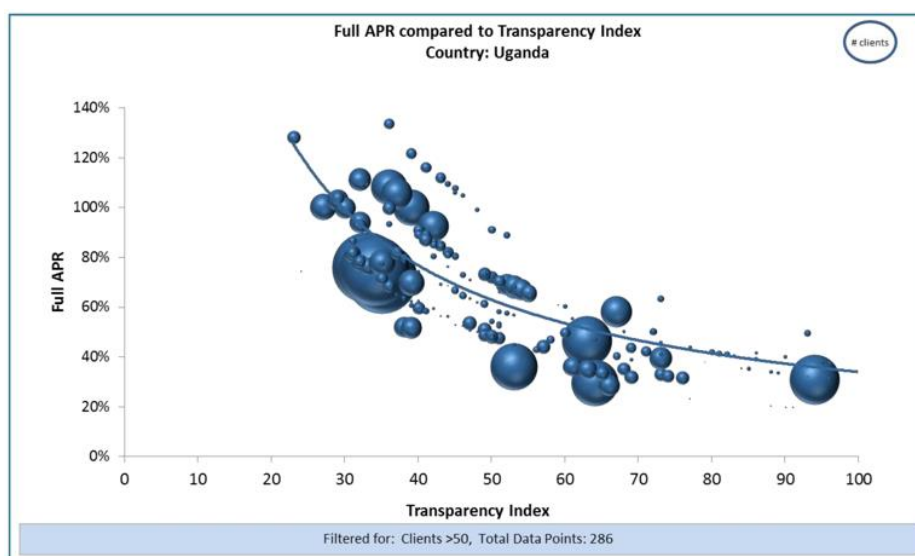


Figure 11: Analysis of Pricing Components in Ghana

Price Components, Ghana	Products		Clients	
<b>Totals for this data analysis</b>	<b>109</b>		<b>495,155</b>	
<b>Interest Method</b>				
Declining Balance	11	10%	23,042	5%
Flat	98	90%	472,113	95%
<b>Interest Rate</b>				
Same rate for all loans for the product	77	71%	286,676	58%
Different rates for different loans	32	29%	208,479	42%
<b>Fees</b>				
No fees charged	14	13%	26,360	5%
1 Fee charged	63	58%	199,162	40%
2 Fees charged	32	29%	269,633	54%
3 or more fees charged	0	0%	0	0%
<b>Insurance</b>				
No Insurance required	66	61%	149,655	30%
1 Insurance required	43	39%	345,500	70%
2 or more insurance products required	0	0%	0	0%
<b>Compulsory Deposit</b>				
No Compulsory Deposit required	36	33%	80,819	16%
Upfront Compulsory Deposit only	61	56%	375,519	76%
Ongoing Compulsory Deposits only	2	2%	1,287	0%
Upfront & Ongoing Deposits required	10	9%	37,530	8%
<b>Price Structure Including</b>				
... one price component	7	5%	11,180	1%
... two price components	20	15%	53,833	7%
... three price components	52	39%	115,214	14%
... four price components	29	22%	314,790	39%
... charging all four and using flat interest	26	19%	305,440	38%
<b>Products....</b>				
... charging Flat or UpFront Int	98	90%	472,113	95%
... charging Fees	95	87%	468,795	95%
... charging Insurance	43	39%	345,500	70%
... requiring Compulsory Deposit	73	67%	414,336	84%
<b>Product Transparency Index</b>				
Between 0 and 25	16	15%	177,619	36%
Between 26 and 50	60	55%	245,808	50%
Between 51 and 75	26	24%	62,309	13%
Between 76 and 100	7	6%	9,419	2%
<b>Pricing and Transparency by Loan Amount</b>	<b>Transp</b>	<b>FullAPR</b>	<b>Clients</b>	<b>% Clients</b>
GHS <1,000	45	104%	291,397	67%
GHS 1,001 to 5,000	40	116%	93,756	22%
GHS 5,001 to 7,500	44	104%	18,173	4%
GHS 7,501 to 10,000	41	112%	19,950	5%
GHS 10,001 to 13,000	55	77%	4,982	1%
GHS >13,000	50	87%	5,224	1%

Note: Presenting data on 109 products, Filtered to: Exclude products with less than 50 clients,

The next table shows the Pricing Matrix for Rwanda, showing average Full APR for all the loan samples in the country correlated to loan amount (rows) and loan term (columns). In most cases, there is a consistent pattern from highest prices in the top-left, for the combination of smallest amount for shortest term, and transitioning to lowest price in the bottom right of the matrix.

Figure 12: Pricing Matrix for Rwanda

Loan Amounts		Loan Terms (in months)					
RWF	USD	<6	6-9	9-12	12-18	>18	All terms
<500,000	<\$781	73%	66%	48%	35%	48%	60%
500,001 to 1.5M	\$782 to \$2,344	84%	78%	51%	.	27%	55%
1.5M to 2.5M	\$2,345 to \$3,906	89%	87%	51%	35%	33%	49%
2.5M to 3.5M	\$5,470 to \$7,031	.	86%	.	.	22%	43%
3.5M to 4.5M	\$7,032 to \$7,813	.	.	.	.	26%	37%
>4.5M	>\$7,813	.	.	.	.	.	51%
All amounts		76%	74%	50%	34%	30%	55%

Filtered for: borrowers > 50, loan samples > 3

The reports also provide detailed information for market focus of every MFI. The table on the next page shows data for the largest MFIs in Uganda. The middle columns show number of clients and average Full APR for each segment of the market. The bar graphs on the right visually show market segment focus of the MFI (green bars) and then their share of the country's market by segment (red bars).

The final example on the following page shows the degree of detail given for each product of each MFI in the reports, including showing a trend analysis between the two rounds of data collection. The data shown is for some of the MFIs in Tanzania. Changes in pricing are indicated in italics, together with colored arrows indicating direction of change. What seems clear from the data is that there are no obvious and consistent changes in pricing practices. Some MFIs lowered their prices, but many others raised their prices, and a large number left their prices unchanged, even after seeing their 2012 prices published relative to the market. We had expected pricing transparency to affect managerial decision making. It likely did so with some, but there was not broad-based impact.

Institution	Data Status	Avg Loan Bal (Rank)		Totals	Client Distribution by Loan Amount (Nat'l Currency)											Client Distribution		
		Number Prods	#		Price by Loan Amount										Inst Dist	Country Dist		
		Amt (USD)			Less Than 1,000,000	1,000,000 5,000,000	5,000,000 7,500,000	7,500,000 10,000,000	10,000,000 13,000,000	13,000,000 10,000,001	10,000,001 7,500,001	7,500,001 5,000,001	5,000,001 3,000,001	3,000,001 More than				
Country Total	Age (mont)	\$423 Products: 69		Clients Avg Price Transp Ind #samples	418,285 69% 295	174,658 83% 45 115	159,678 63% 54 112	30,187 61% 54 24	20,300 53% 64 26	10,871 51% 62 8	22,591 38% 74 10							
1 Centenary Bank	9	\$1,676 (22) Products: 4		Clients Avg Price #samples	135,852 34% 14	53,228 36% 1	53,815 36% 6	7,762 0 0	7,762 32% 1	5,762 36% 2	5,762 32% 4							
2 BRAC-UGA	16	\$152 (5) Products: 3		Clients Avg Price #samples	121,959 67% 9	58,399 77% 4	60,463 62% 4	2,064 51% 1	1,032 0 0	5,762 36% 2	5,762 32% 4							
3 PRIDE-UGA	N/A	\$394 (13) Products: N/A		Clients Avg Price #samples	70,400 0	0 0	0 0	0 0	0 0	0 0	0 0							
4 FINCA-UGA	15	\$332 (11) Products: 4		Clients Avg Price #samples	48,292 60% 19	16,526 64% 5	12,813 56% 8	12,813 70% 4	1,674 48% 1	1,674 48% 1	1,674 0 0							
5 Opportunity	13	\$588 (19) Products: 9		Clients Avg Price #samples	23,496 62% 38	13,261 78% 12	8,398 56% 17	137 48% 2	137 51% 4	137 0 0	213 51% 3							
6 Finance Trust	12	\$769 (20) Products: 5		Clients Avg Price #samples	22,236 78% 20	3,764 89% 8	3,764 73% 10	2,019 63% 1	2,307 0 5	1,731 0 0	1,731 0 0							
7 Hofokam	15	\$227 (7) Products: 6		Clients Avg Price #samples	17,291 63% 27	7,350 73% 10	6,425 62% 11	1,558 62% 1	1,206 45% 5	376 0 0	376 0 0							
8 VF Uganda	13	\$244 (8) Products: 4		Clients Avg Price #samples	13,072 77% 17	3,350 74% 7	3,138 79% 7	2,193 81% 1	4,386 79% 2	0 0 0	0 0 0							
9 UGAFODE	11	\$570 (17) Products: 9		Clients Avg Price #samples	8,064 57% 38	2,517 67% 13	5,007 56% 14	174 57% 3	151 51% 4	51 36% 1	62 34% 3							
10 THPU	12	\$103 (4) Products: 1		Clients Avg Price #samples	6,528 52% 4	4,570 52% 4	1,958 0 0	0 0 0	0 0 0	0 0 0	0 0 0							




Inst & Product		Number of Clients			Transparency Index			Spread Index			FullAPR (Avg)			Quoted Interest Rate			Compulsory Fees			Compulsory Insurance			Security Dep Description		
Institution	Product	2012	2013	Change	2012	2013	Change	2012	2013	Change	2012	2013	Change	2012	2013	Change	2012	2013	Change	2012	2013	Change	2012	2013	
ABT	Business	12,035	15,819	71	67	4	22	10	59%	62%	4%	42%-66% DB	42%-66% DB	None	None	None	None	None	None	None	None	25% up 1,000 on	N/A		
BEILITA	SME Loan	4,500	5,882	32	29	-3	36	190	151%	164%	13%	48%-96% FL	48%-96% FL	2% up	2% up	2% up	2% up	2% up	2% up	2% up	2% up	10% up	25% up 2,000 on		
BRAC Tanzania	Microfinance	108,429	100,061	32	42	10	15	12	0%	78%	78%	22% FL	33%-34% FL	1% up	1% up	1% up	1% up	1% up	1% up	1% up	1% up	10% up	10% up		
BRAC Tanzania	Enterprise	3,232	2,331	43	47	4	14	2	0%	53%	53%	22%-24% FL	25%-26% FL	3% / 2%	3% / 2%	1% up 4,000 up	1% up 2,000 up	1% up 2,000 up	1% up 2,000 up	1% up 2,000 up	1% up 2,000 up	10% up	20% up		
F & K Finance	SME Loan	69	25	25	67	67	67	245%	245%	245%	60% FL	60% FL	30% / 30%	30% / 30%	2% up	2% up	2% up	2% up	2% up	2% up	15% up 2% on	10% up 2% on			
FMFC	Personal	5,169	1,342	31	42	11	6	10	96%	72%	24%	30%-3% FL	24% FL	24%	24%	None	None	15,000 up	15,000 up	15,000 up	15,000 up	None	15% up		
FINCA Tanzania	Individual	6,844	8,607	56	59	3	15	3	64%	61%	-3%	36% FL	36%-60% DB	Method	Method	None	None	1% up	1% up	None	None	N/A	N/A		
FINCA Tanzania	Small Group	3,195	8,196	48	81	33	2	2	88%	80%	-8%	42% FL	65% DB	Method	Method	None	None	1% up	1% up	None	None	10% up 10% on	10% up		
FINCA Tanzania	Village	57,981	62,002	43	85	42	8	8	112%	92%	-20%	48% FL	78% DB	Method	Method	None	None	None	None	None	None	10% up 2,000 on	10% up 2,000 on		
K-Finance Ltd	Business	300	71	37	58	22	5	7	99%	103%	4%	36% FL	60% FL	24%	24%	10,000 up	10,000 up	2% up	2% up	100% up	100% up	N/A	N/A		
K-Finance Ltd	Group	702	1,010	24	27	3	104	59	201%	178%	-23%	48% FL	48% FL	24%	24%	1% up 5,000 up	1% up 5,000 up	2% up 1% up	2% up 1% up	100%-1.50% up	100%-2.50% up	20% up 2,000 on	20% up 1,000 on		
Mbinga	Salary	267	86	46	42	-5	0	20	52%	58%	6%	24% FL	24% FL	24%	24%	1% up 2% up	1% up 2% up	3 fees	3 fees	1.00%-1.50% up	1.00%-2.50% up	N/A	N/A		
Mbinga	Business	307	58	19	16	-3	6	27	52%	61%	9%	10%-24% FL	10%-24% FL	24%	24%	1.50% up 2% up	1.50% up 2% up	1.50% up 2% up	1.50% up 2% up	1.00%-2.50% up	1.00%-2.50% up	N/A	N/A		
Mbinga	Solidarity	12,389	883	8	9	1	48	961	130%	112%	-18%	10%-30% FL	10%-30% FL	Method	Method	1.50% up	1.50% up	2% up	2% up	None	0.65% up	30% up 5,000 on	30% up 10,000 on		
MCBL	Agriculture	196	271	106	75	-31	0	28%	40%	12%	30% FL	30% DB	24%	24%	1.50% up	1.50% up	2% up	2% up	None	None	N/A	15% up			
MCBL	Group	39	672	57	37	-20	10	53%	81%	28%	30% FL	30% FL	24%	24%	1.50% up	1.50% up	2% up	2% up	None	None	15% up	15% up			
MCBL	Business	2,300	521	57	43	-14	36	38%	50%	12%	22% FL	22% FL	24%	24%	1.50% up	1.50% up	2% up	2% up	None	None	15% up	15% up			
MCBL	Salaried	2,162	26	26	11	11	11	38%	38%	12%	10%-18% FL	10%-18% FL	24%	24%	2% up	2% up	2% up	2% up	None	None	N/A	N/A			
NMB	MSE Loan	46,000	45,197	84	89	5	9	28	29%	27%	-1%	24% DB	24% DB	24%	24%	1.50% up	1.50% up	1.50% up	1.50% up	None	0.75% up	N/A	N/A		
Opportunity	Pamoja	3,200	3,536	34	41	6	9	7	105%	88%	-17%	36% FL	36% FL	24%	24%	2% up	2% up	2% up	2% up	None	1.00% up	20% up	10% up		
Opportunity	Solidarity	635	5,071	29	42	12	38	15	82%	72%	-10%	24% FL	30% FL	6%	6%	1.50% up	1.50% up	1.50% up	1.50% up	None	1.00% up	20% up	10% up		
Selfina	Microleasing	500	28	28	23	5	9	23	108%	108%	108%	30%-34% FL	30%-34% FL	None	None	15,000-0 up	15,000-0 up	15,000-0 up	15,000-0 up	None	None	25% up	25% up		
Selfina	Work Capital	7,500	37	37	7	7	7	91%	91%	91%	34% FL	34% FL	24%	24%	2,000 up 2% up	2,000 up 2% up	2,000 up 2% up	2,000 up 2% up	2,000 up 2% up	2,000 up 2% up	20% up	20% up			
Tujenge Tanzania	Flexible	4,885	2,648	34	38	4	30	52	105%	126%	21%	36% FL	48% FL	12%	12%	4,000 up	4,000 up	20,000 up 2% up	20,000 up 2% up	None	None	20% up	20% up		
Tujenge Tanzania	Group Loan	12,483	7,089	31	38	7	51	20	116%	126%	10%	36% FL	48% FL	12%	12%	10,000 up 2% up	10,000 up 2% up	20,000 up 6% up	20,000 up 6% up	None	None	10% up	10% up		
Tujenge Tanzania	Individual	411	137	51	43	-8	13	21	71%	83%	13%	36% FL	36% FL	40%	40%	None	None	30,000 up 2% up	30,000 up 2% up	2.00% up	2.00% up	N/A	N/A		
Tujenge Tanzania	MYC4	48	160	N/A	50	25	25	25	0%	80%	80%	% FL	40% DB	40%	40%	30,000 up 2% up	30,000 up 2% up	0.50% up	0.50% up	1.00% up	1.00% up	N/A	N/A		
Victoria	Small Loan	115	42	42	16	16	16	71%	71%	71%	24%-29% FL	24%-29% FL	24%	24%	0.50% up	0.50% up	0.50% up	0.50% up	1.00% up	1.00% up	25% up	25% up			
YOSEFO	Benkijamii	3,305	25	25	18	18	18	90%	90%	90%	24%-29% FL	24%-29% FL	24%	24%	1% up 10,000 up	1% up 10,000 up	1% up	1% up	1.00% up	1.00% up	N/A	N/A			
YOSEFO	Group Loan	13,714	27	27	72	72	72	90%	90%	90%	24%-29% FL	24%-29% FL	24%	24%	1% up	1% up	2% up	2% up	1.00% up	1.00% up	20% up	20% up			
YOSEFO	Mavuno	116	27	27	4	4	4	45%	45%	45%	20%-22% FL	20%-22% FL	24%	24%	1% up 10,000 up	1% up 10,000 up	1% up	1% up	1.00% up	1.00% up	N/A	N/A			
AKIBA	Individual	13,606	45	45	20	20	20	95%	95%	95%	27% FL	27% FL	18% FL	18% FL	2% up	2% up	1% up 10,000 up	1% up 10,000 up	1.35% up	1.35% up	25% up 3,000 on	25% up 3,000 on			
AKIBA	Group	10,387	28	28	5	5	5	79%	79%	79%	22%-24% FL	22%-24% FL	36% DB	36% DB	2.50%-3% up	2.50%-3% up	15,000 up	15,000 up	2.00% up	2.00% up	10% up 200 on	10% up 200 on			
AKIBA	Consumer	2,755	49	49	79	79	79	39%	39%	39%	18% FL	18% FL	20% FL	20% FL	1% up	1% up	1% up	1% up	1.35% up	1.35% up	25% up 13,000 on	25% up 13,000 on			
AKIBA	Home	247	50	50	4	4	4	39%	39%	39%	20% FL	20% FL	24%	24%	1% up 10,000 up	1% up 10,000 up	1% up	1% up	1.35% up	1.35% up	25% up 13,000 on	25% up 13,000 on			
PRIDE Tanzania	MEC Loan	101,152	26	26	46	46	46	119%	119%	119%	30% FL	30% FL	22%-24% FL	22%-24% FL	1% up	1% up	1% up	1% up	1.35% up	1.35% up	25% up 13,000 on	25% up 13,000 on			
PRIDE Tanzania	Premium	2,439	28	28	3	3	3	79%	79%	79%	22%-24% FL	22%-24% FL	36% DB	36% DB	2.50%-3% up	2.50%-3% up	15,000 up	15,000 up	2.00% up	2.00% up	10% up 200 on	10% up 200 on			
PRIDE Tanzania	Salary	843	88	88	8	8	8	41%	41%	41%	36%-48% FL	36%-48% FL	24%	24%	2.50%-3% up	2.50%-3% up	15,000 up	15,000 up	2.00% up	2.00% up	10% up 200 on	10% up 200 on			
MDF Tanzania	Group	606	20	20	93	93	93	194%	194%	194%	36%-48% FL	36%-48% FL	24%	24%	2.50%-3% up	2.50%-3% up	15,000 up	15,000 up	2.00% up	2.00% up	10% up 200 on	10% up 200 on			

## Activity 3: Regulator & Policymaker Support

MFTransparency had provided a range of useful regulator training in Phase I (see page 58), resulting in some follow-on events during Phase II. MFT sub-contracted Planet Rating to assist in the training events and the documentation.

The first significant conference was in Nairobi in June 2013, an English-language follow-up conference for East and Southern Africa, inviting the same regulators who had attended the Nairobi event in November 2011. A parallel event was held in Dakar, in French, for the BCEAO in October 2013.

A key resource for both trainings was the new [Transparent Pricing Supervision Handbook \(TRAPS\)](#), developed jointly by MFT and Planet Rating. In addition, a broad range of MFT publications were translated into French and Portuguese for use by the regulators.

 <b>TRAPS</b> Transparent Pricing Supervision Handbook	
<b>Chapter 1 – Pricing Calculation.....</b>	<b>4</b>
Section A - The only valid approach to interest rates.....	4
The declining balance calculation method: the only valid approach .....	4
There is no such thing as a “flat interest rate” .....	4
“Deducted up-front interest” .....	5
Why is the flat calculation so commonly used in the microfinance industry? .....	6
Section B – Transparent interest rate formulas: APR, EIR and MPR .....	8
Understanding the time value of money.....	8
Understanding the discount rate method .....	8
Calculating the Annual Percentage Rate (APR).....	9
Calculating the Effective Interest Rate (EIR) .....	10
Calculating the Monthly Percentage Rate (MPR) .....	11
<b>Chapter 2 - The hidden costs of credit – what to include in true price formula.....</b>	<b>12</b>
Section A – Understanding the design of non-interest charges .....	12
Section B - Commissions .....	14
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Some insurance can be excluded from the APR.....	18
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<b>Chapter 3 – Price caps.....</b>	<b>20</b>
Theoretical approaches to price caps.....	20
Impact of price caps on the product offering.....	21
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<b>Chapter 4 - Truth-in-lending.....</b>	<b>23</b>
Section A – Communication to clients.....	23
Disclosure content: cost and non-cost information .....	23
Disclosure before the sale .....	25
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Information users .....	30
How the required information can be disclosed to market actors: .....	30
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## Activity 4: Industry Voice for Responsible Practice

For Activity 4, MFT began to shift Activity 4 from "Industry Voice for Transparent Pricing" to "Industry Voice for Responsible Practice." In addition to input on the definition of responsible pricing, we began to be invited to conferences to address a topic that had been entirely ignored by all other major organizations in microfinance — responsible profit.

I made two presentations at conferences in NY, the first in March 2012 on [Balancing Impact with Profits through Responsible Pricing](#). The next month I spoke on [Pricing, Profits, Financing, and Responsible Practice](#).

These led to an invitation to make a brief presentation at the SPTF meeting in Jordan in July 2012, which I then expanded into a longer webinar entitled "[Growth, Profit, and Compensation in Microfinance: How Much is Too Much?](#)"



The STPF presentation then led to a contract from Deutsche Bank to do additional research and speaking on the topic, culminating in MFT providing the main message at the SEEP Luncheon hosted by Deutsche Bank in November 2012.

I included one presentation on the topic in February 2013, during broader training to NPM: [Prices, Costs, Profits and Responsible Practice](#), and I incorporated the topic into a TEDx Talk I gave entitled [Ending World Poverty? Or Profiteering from the Poor?](#)

## IN SUM — PROGRESS, SETBACKS, AND NEW LEARNINGS

With the staffing crisis of 2011, MFT had not intended to even enter into a Phase II, but our announcement that we intended to close generated broad support convincing MFT to continue operations with a heavily scaled-back structure and working through partnerships with other organizations. MFT was fortunate to work with three strong partners of good reputation – MFIN/India, Pakistan Microfinance Network, and Planet Rating. The three partners worked conscientiously and with persistence, but all struggled to get MFIs to submit data in virtually every country. We succeeded in publishing data for each country, but participation rates were dropping, in many cases dangerously low.

With more pricing data and with pricing trend data, MFT made significant progress on data analysis, issuing a series of Country Pricing Reports (done in conjunction with Planet Rating) and developing robust new tools on the website, including the Pricing Analysis Tool.

MFT and Planet Rating held two more regulator training events in Africa and developed a new TRAPS Handbook for their use.

MFT received a growing number of requests to speak on the topic of responsible pricing and responsible profit, leading to a grant from Deutsche Bank to do additional research on the topic and make a luncheon presentation at the SEEP AGM in 2012. MFT was invited to do a TEDx talk on the topic in 2013.

## 2013 STRATEGIC PLANNING: IS THERE A PATH FORWARD FOR MFTTRANSPARENCY?

The dilemma of public goods — all see value but are unwilling to pay, and privatizing the information defeats the purpose

### Outline of Chapter

**Rationale for doing a strategic plan**

**Finding no viable path to sustainability**

**Assessing the Ten Fundamental Goals**

**In Sum – Progress, Setbacks, and New Learnings**

### RATIONALE FOR DOING A STRATEGIC PLAN

MFTtransparency had made the choice to close down at the end of Phase I, in 2011, as described on page 60. Broad support from the industry convinced the board to have the staff seek a viable path forward, and that became the basis for the Phase II strategy of keeping MFT very small and working through partnerships with other organizations. But in parallel with Phase II operations, there was a strong need to study the future viability of MFT and transparent pricing.

All of the organizations involved in transparency and responsible practice were under pressure from the industry to determine how to be efficient and sustainable, as well as reduce duplication of work and reporting burdens for the industry. Funders have short-term horizons; they were willing to fund the creation of a data infrastructure, but desire the organizations to reach a high degree of cost recovery.

Even though reasonably efficient in its operations, MFTtransparency had certainly already had chronic problems with funding, as grants were generally a year or less in duration and covered field operations but did not fund the creation of core head office support. Therefore, with its fifth anniversary approaching on July 2013, the MFT board decided to engage in a strategic planning process that would revisit and review the

organization's strategic directions (i.e. vision, mission, core values), strategic goals, objectives, and the strategies needed to achieve those objectives for the period from 2014-16.

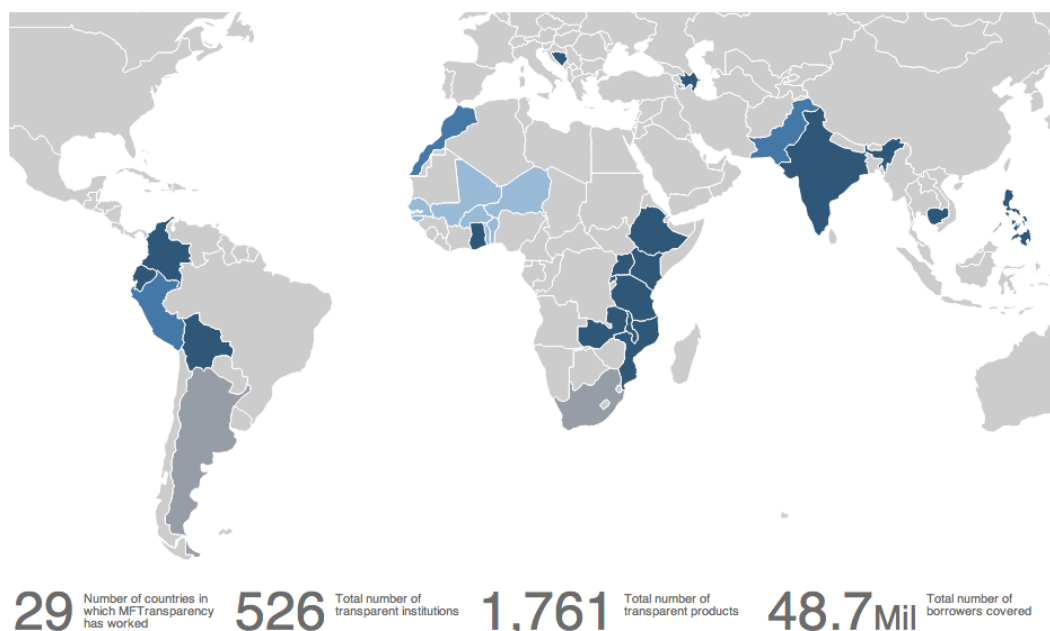
Given the significant internal organizational changes that had taken place over the previous 18 months, as well as the external changes in the context of the global microfinance sphere, MFT sought to dialogue with various industry stakeholders through a structured process to exchange ideas and receive feedback on MFT's role in the coming period. This included a thorough research-and-review stage; an evaluation of MFT's core activities and potential synergies through partnerships; and planning of operational activities, funding sources and working projects and broad direction for 2014-2016.

The process began in late 2012 with board-level discussions and continued by contracting ShoreBank International (SBI) in early 2013. SBI's scope of work included identifying market opportunities, examining the organization's internal capacities, and presenting key findings to the Board and CEO in a strategy setting workshop. In addition to the guidance provided in assessing the microfinance environment and MFT's positioning within the industry, SBI undertook interviews with more than 40 industry stakeholders; including MFIs, MFT funders, microfinance investors, and strategic partners of MFT. The document produced by SBI, detailed opportunities, highlighted major risks, identified potential mitigates, and suggested implementation steps. The material in this chapter draws from and summarizes from that document.

## FINDING NO VIABLE PATH TO SUSTAINABILITY

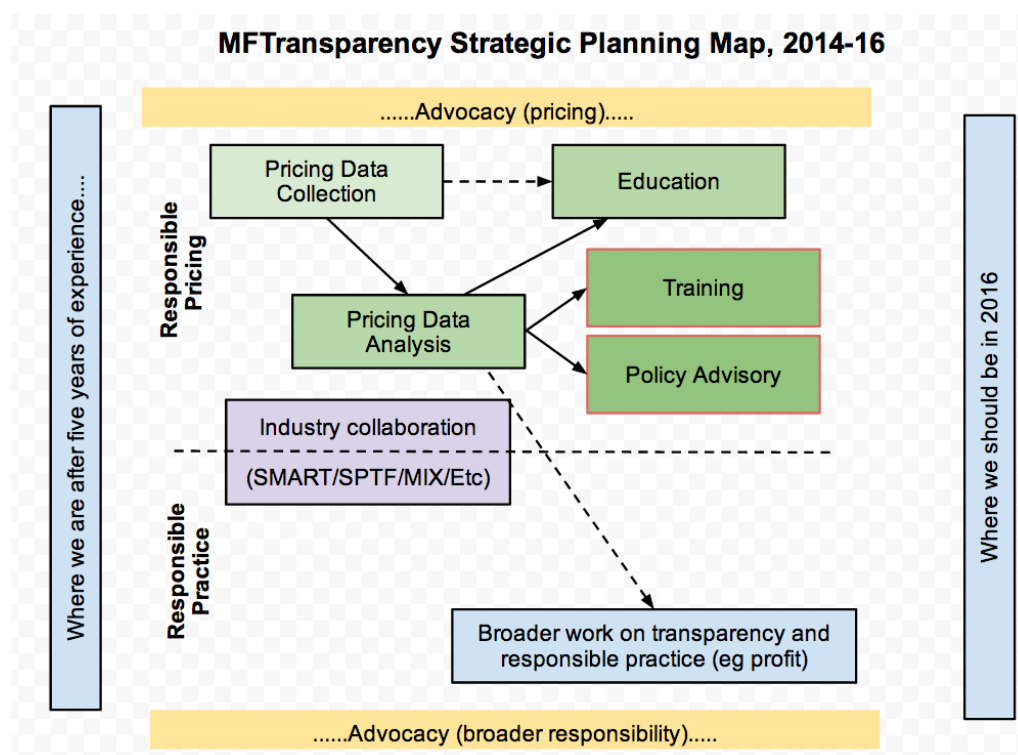
Over the five years, MFT's work had centered on the four core components: Pricing disclosure; Training and Education; Regulator and Policymaker Support; and Industry Voice for Transparent Pricing.

Data collection and pricing disclosure absorbed an estimated 70% of MFT's efforts over the first five years. Why so much effort in just one of the four areas? Data collection was a necessary first step for learning about pricing and then using that learning to educate and advise the industry. As shown in the map below, we were quite successful in data collection, although we ran into challenges in publishing data in West Africa because of usury laws (see Page 36), and we fell short of collecting data in Argentina (Page 35) and South Africa (Page 31) because of MFI boycotts.

**Figure 13: Countries where MFTransparency has worked**

The SBI interviews showed that pricing data was highly appreciated by the industry, but that a low percentage were willing to pay to access that pricing data. As with much of the information infrastructure in microfinance, it is viewed as a public good with high disperse value and a low price point. SBI's study concluded that there is no sustainable business solely in data collection, and other activities such as training and analytical reports showed only modest income generation potential. As Phase II was demonstrating conclusively that data collection continued to take significant effort and be costly, the Strategic Plan was showing conclusively that the pricing data could not generate more than a modest income stream. MFT's primary core activity had no chance to be economically viable.

Was there any other path to sustainability? The following graphic depicts the four core components. The left side represents the current status in 2013, and the right side represents a desired balanced of activities in 2016. The upper half centers on responsible pricing, and the low half on broader areas of responsible practice. In the top half, the graphic indicates a planned shift from primarily collecting pricing data to deemphasizing that activity (lighter green) and shifting efforts heavily into analysis and education (medium green), and then into activities that could generate fee-for-service income — training and policy advisory (dark green). In the lower half (Responsible Practice) it shows MFT increasing involvement in the broader areas of practice, including responsible profit.



In summary, data collection was the highest expense and the lowest potential revenue. Pricing data might be converted into other products and services to generate revenue, but they were seen as potentially breaking even, not being sources of profit with which to subsidize the data collection. The industry supported MFT's mission and valued its products and services, but the industry wasn't willing to pay enough for them. Grants would need to continue to be the primary source of income, and our funders were clearly expressing that they would not be able to continue funding for much longer, particularly as the deteriorating reputation of microfinance was causing donors to redirect their resources away from microfinance.

The board strenuously discussed whether we should allow some degree of mission drift in order to survive as an organization. As will be explained later, there was more willingness to close the organization rather than compromise too much on our founding principles, and we were in search of a middle ground. Before moving to that point, it is useful to review MFT's status on the original Ten Fundamental Goals.

## ASSESSING THE TEN FUNDAMENTAL GOALS

Using MFT's five years of experience, together with the findings of SBI's strategic plan, to assess the original Ten Fundamental Goals, our starting point was:

*"Have these principles and goals worked?"*, and if they have,  
*"To what degree have they worked?"*, and finally  
*"How should this influence our strategy and goals going forward?"*

### ***Key Goal 1***

MFTransparency can create a **new awareness** and recognition in the industry that the **prices** charged to the poor are an essential factor that **should be transparently disclosed**.

**Score: Excellent**

Since MFT was created, pricing went from an issue seldom discussed and even less seldom understood to a factor that is now addressed in every initiative about responsible practice and a topic that is included in many conferences and reports. Though the industry still lacks a deep understanding of how pricing works, what it means, and how to determine if a price is responsible, when questions arise, the entire industry turns to MFTransparency for advice and information.

Our organization undeniably spearheaded this change in awareness and we have yet to be challenged or openly debated on the importance of, or our approach to, transparent pricing. However, we do still see discussions and publications using inaccurate data and weak definitions of pricing, such as [CGAP's publications on pricing](#).

The data MFT has collected and published is eye-opening in many ways. We have evidence that competitive prices follow a curve; that prices are rarely competitive in microfinance; that MFIs really don't understand pricing very well; that prices are far, far higher than we ever thought; that security deposits are more pervasive and harmful than we ever knew; and that quoted interest rates have no integrity, sometimes representing less than a third of the true price. The common public assumption that the interest rate represents most of the real price is grossly incorrect, and that most MFIs prefer it that way.

The data collection work has been incredibly hard, but we have no doubt that the industry's knowledge and understanding of pricing has advanced tremendously because of that hard work.

Overall, we consider that we have a score of **Excellent** in this area.

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*Transparent and consistent pricing ensures that clients can compare the [prices] of lending products across institutions while donors, investors and analysts can better assess lending institutions from a financial and social perspective. MicroFinance Transparency is playing a lead role in addressing this challenge by providing the financial education, institutional training and tools to make this information widely available. This will yield positive results for microfinance clients and enhance the transparency of the industry.*

Bob Annibale, Global Director for Microfinance, Citibank

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## ***Key Goal 2***

Publishing prices and educating MFIs to understand prices will **increase both price competition and ethical pressures**, resulting in notable price reductions.

**Score: Mixed**

MFT was created with the expectation that publishing transparent pricing would resolve a serious market failure — prices were unknown by virtually all stakeholders in microfinance, including the MFIs themselves. Publishing prices would lead to awareness of who was charging high prices, and we would combine this pricing data with education and free tools for others to calculate and understand prices. We believed that the result would almost certainly lead to increased price competition, even if the clients were still not aware of the prices.

In addition to collecting and publishing data, our team put a large amount of time and effort into educating the industry. MFT's free price calculator software is widely used. Our work in each country started with a full-day event where MFT explained and taught pricing to the senior staff of all the MFIs. Our analysts did follow-up, one-on-one training with those MFIs as their own prices were calculated and shared with them. Our senior staff did dozens of training sessions at regional and global conferences and through webinars.

The combination of published data, analytical software, and training sessions were expected to generate changes in pricing practices — market forces would be more powerful, due to transparent pricing information, ethical pressures to improve pricing practices would increase from funders, networks, and other MFI competitors knowing your prices, and managers would have improved knowledge and skills to make improved pricing decisions.

So, did pricing actually change? In our early years, we found a number of case study examples, where an MFI would confess they had lowered their prices before giving us the data, or where an MFI would see their price in our published data and then decide to adjust their prices to better match the market. In most cases, prices came down, but there was at least one interesting example of an MFI raising their price after seeing they were well below the market rate.

We operated in confidence that the majority of MFIs would be thinking harder about prices, but we needed to wait until we had refreshed pricing data to do any statistical analysis. In 2013, we had refreshed data in Bosnia, Cambodia, and five Africa countries, enough to start that analysis.

Sadly, every indication is that price changes are mixed. There were numerous MFIs that left their prices unchanged and a significant number who actually increased their prices, even when their prices were already on the high end of the market. There is no clear evidence that prices decreased significantly due to transparency and education, nor that MFIs were using market data to influence their pricing decisions.

In addition to the possibility that prices are not dropping due to transparency, we also still face a significant challenge in determining how to actually convert the complexities of pricing into a clear answer to the question *"Are prices changing?"* and to the question *"Has this MFI truly lowered their prices, or are price changes due to factors of loan size?"* A companion report to this report on MFT's History provides an up-to-date analysis of the pricing data collected over the seven years.

Overall, we consider that we have a score of **Mixed** in this area.

### ***Key Goal 3***

The first time transition of a country to transparent pricing will take effort and dialogue, but then **subsequent price refreshing will go quickly** and smoothly because the true prices are known. Refreshing data will cost approximately 25% of the cost of the initial process.

**Score: Poor**

As shown on page 68, our original assumptions of the efforts needed to refresh data were grossly incorrect. Collecting new prices took as long, if not longer, than collecting the initial prices for most countries, and participation percentages dropped in every country.

Our experience raises some very important and essential points for us to consider:

- Participation, when voluntary, does not come easily. Even for those willing to be transparent, the effort to generate and submit data falls at a medium or low priority. When reports are required by funders or regulators and have firm deadlines with penalties, reports generally get done.
- For those MFIs who submit pricing data with more reluctance, it takes an inordinate amount of work on our part to get that data. We expect progressively more delays and an increasing dropout rate over time.
- While MFTransparency does significantly better than other data collection efforts, it is likely only because of persistence and pressure from our team and other stakeholders; and because pricing transparency is still somewhat new, and a novelty. This means there are likely no ways we can improve participation rates and speed up data submission while pricing transparency remains a voluntary initiative.

Following are responses to the most common questions we are asked:



**Do MFIs get into the habit of sending data back promptly after they are now transparent?**

Only a few. For some it is yet another report and one that doesn't have any punishments for delays. For others, they just don't want to give us the data. For others, they don't understand the process very well. For others, the struggle is to access the required repayment schedules.

**Are delays due to a cumbersome methodology?**

We made constant efforts to improve the process and believe that the MFI's motivations have more influence than MFT's methodologies. Without legal obligations or financial pressure, we can't increase the motivation we provide for MFIs to do what they do not want to do.

**Is our system as streamlined and fast as we believe? Can an MFI really provide data in two hours of work?**

If they are comfortable with Excel they can complete the DCT quickly, typing in just info that has changed since their last submission. If they have good MIS, they can get the repayment schedules easily. If an MFI has 3-4 products, it is very possible to finish in less than 2 hours. We found in the vast majority of cases that MFIs invested far more than 2 hours, resulting in process delays and creating extra work for MFT and our data collection partners.

**Could we make the system simpler and faster?**

We could, if we make significant compromises on the requirement of real repayment schedules, but this leaves much more room for lies as well as for calculation errors by MFT. Another approach to a faster process is to have an analyst visit the institution, where they can get quick answers to questions.

**Can we successfully keep data current in a country?**

We haven't yet succeeded, and there are long lags built into the process. At present, we go to a country for the first time and start first-time data collection, and we get info from Month 1 that we don't publish until Month 9 or so. The data is already 9 months old when it first comes out. We then start a refresh process about a year after that, or Month 20, and it takes another 6 months or so to collect the new round of data. Thus, in Month 25, before publishing the new data, the published data on our website is actually 25 months old. Then in Month 26 it gets replaced with data that again is already 6 months old. And then the process repeats. This is far from the original intention to have a refresh process that lasts 1 month, not 6, and to repeat that process every 3 months. Our intention was to be able to say that all prices on the website were as little as 1 month old and at most 4 months old. Data collection challenges have made this impossible for us to accomplish.

**Could this improve if we had better systems, or captured data directly on the website?**

We thought so for several years, but the issue isn't website collection forms. We now believe that without obligatory participation (as a regulator or a funder can mandate) fancy systems provide little real motivation. Procrastination, delays, avoidance, and false excuses are the norm.

Overall, despite our relative success in collecting data, we consider that we have a score of **Poor** in the area of this becoming efficient, inexpensive, and routine.

#### ***Key Goal 4***

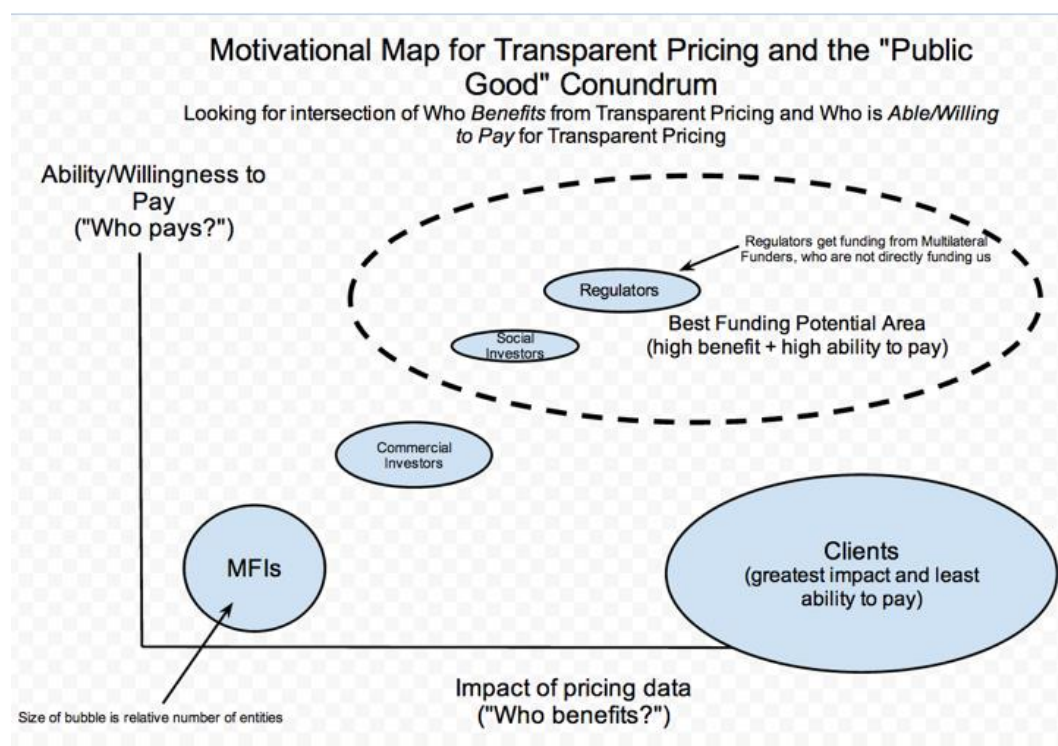
After subsidizing the first round of data collection, **MFIs will be asked to pay** most of the cost of their transparency – why should others pay for their transparency? To broaden membership beyond MFIs, MFT will provide dashboards, watch-lists, email alerts, and provide databases and higher-level analysis tools.

**Score: Failed**

From the beginning in 2008, we had generated financial projections showing a large number of stakeholders willing to pay small annual membership fees in return for recognition of being a sponsor as well as for having access to a variety of features we would build in behind the public website. Despite putting considerable pressure on our website team to develop those features, they failed to complete even the most rudimentary features. We missed numerous deadlines to start the membership process and the window of opportunity has closed.

The Strategic Planning interview process drove home the dilemma of generating income from a public good. The **Motivational Map** diagram below correlates ability/willingness to pay for transparency on the vertical axis and benefit/impact from transparency on the horizontal axis.

- MFIs see little benefit from transparency and are therefore unwilling to pay the costs of collecting and publishing data.
- Clients can benefit from transparency, but setting up a system whereby they pay the costs of implementing transparency is virtually impossible. This is the dilemma of working with a "public good".
- Investors have increasing benefit the more they prioritize supporting responsible practice. They have a modest degree of "willingness to pay" but with the pricing data readily available it is quite difficult to set up a system whereby they pay fees to MFT for additional information and reports. MIX, even with data that investors would find more useful than the limited pricing data that MFT collects, currently covers less than 15% of its operating costs through fee income.
- Regulators could potentially be the stakeholder with the best potential to both value pricing data and be in a position to set up a means to pay for data collection. Multilateral funders might provide the funding, or regulators could potentially force the MFIs to pay the costs. The likelihood of any of this happening will vary considerably country-by-country and would certainly take years to implement.



Overall, we consider that we have a score of **Failed** in this area.

### Key Goal 5

After proving that data collection can be done, we will **partner with other organizations**, and they will reliably collect the data.

**Score: Mixed**

As anticipated in 2008, we did transition to partnering with other organizations, starting in 2012. As explained in detail on page 67, all three partners showed commitment to the process, but all three faced challenges getting MFIs to submit their data. Other partnerships might work more fluidly, but MFT worked with three who are arguably among the best in the industry, and all three struggled to collect data.

We also believe we were operating partnerships under the best of circumstances, in that there were not disagreements between MFT and the partners about how to define true pricing or about what additional information to collect. Partnerships with regulators, for example, would result in dozens of different pricing definitions, reflecting the differences in national regulations. Data would then need to be recalculated using MFT's Full APR approach in order to be compared globally.

Overall, we consider that we have a score of **Mixed** in this area.

### Key Goal 6













To ensure that our data is accurate and MIFs have been honest, we will publish all of our pricing source documents on the web – **full transparency of data sources**. We will invite others to scrutinize this material and detect both inaccurate data submitted to us and data calculation errors possibly made by us.

**Score: Excellent**

MFT calculated over 12,000 prices, everyone one of them by using a copy of an original repayment schedule. Every repayment schedule was scanned and uploaded to the website and is accessible to any visitor to the website, without registering in or paying any access fee. Each of the products analyzed has a [product page](#) on the website showing detailed pricing calculations, as shown below. The icon on the second to last line (Original Repayment Schedule) provides access to a PDF of that repayment schedule. An example was shown on page 18.

### Full Pricing Data

#### Banca Comunal samples

	SAMPLE 1	SAMPLE 2	SAMPLE 3	SAMPLE 4	SAMPLE 5	SAMPLE 6
Loan Amount	BOB 1,000	BOB 4,000	BOB 5,500	BOB 8,000	BOB 10,000	BOB 13,000
Loan Cycle (1, 2, 3, etc)	Not Known	Not Known	Not Known	Not Known	Not Known	Not Known
Disbursement Date	2013-11-18	2013-11-18	2013-11-18	2013-11-18	2013-11-11	2013-11-12
Loan Term (Months)	7.0 months	7.0 months	7.0 months	7.0 months	5.6 months	11.0 months
Grace Period (Months)	0.0 months	0.0 months	0.0 months	0.0 months	0.0 months	0.0 months
Total Cost of Credit	BOB 129.45	BOB 519.43	BOB 715.24	BOB 1,039.67	BOB 1,002.44	BOB 2,484.47
<b>True Price by Comp</b>						
Interest price component	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Fee Component	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance Component	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax Component	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposit Component	15.3%	15.3%	15.3%	15.2%	14.6%	15.4%
Full APR (int fee ins tax dep)	51.3%	51.3%	51.3%	51.2%	50.6%	51.4%
Transparency Index	66	66	66	66	67	66
Original Repayment Schedule	 PDF	 PDF	 PDF	 PDF	 PDF	 PDF
MFT Pricing Calculation	 PDF	 PDF	 PDF	 PDF	 PDF	 PDF

In addition, the price calculation done by MFT staff is also available to any viewer via the link on the bottom line in the screenshot above. Clicking that link displays a PDF like the one below, showing how MFT staff enter dates and amounts from the original repayment schedule and then add any information not included on the repayment schedule. For example, upfront fees and compulsory deposits are often not included on the client's repayment schedule.

### MicroFinance Transparency Pricing Calculation

Institution: Crédito con Educación Rural				Country: Bolivia				Full Price: 51.26%					
Product 1: Banca Comunal								Pricing Transparency Index: 66/100					
Sample 2 of 6, Variation 1 of 1				FileName: BO-010-V03-CRECEP-P01-PriceCalc-S2-1-20130726.PDF				Date of Analysis: 2014-03-04					
Loan Amount: 4,000.00				Pricing Info		Quoted info		Total Paid	Increase	MPR	APR	EIR	
Average Balance: 2,319				Interest		34.0%-36.0% annual, Decl Bal		519.43	36.02%	3.00%	36.02%	43.33%	
Disbursement: 18-Nov-13				Fees		None		0.00	0.00%	3.00%	36.02%	43.33%	
Term (Months): 7.0				Insurance		None		0.00	0.00%	3.00%	36.02%	43.33%	
Grace (Months): 0.0				Taxes		None		0.00	0.00%	3.00%	36.02%	43.33%	
				Deposit		10.0% upfront 20.00% ongoing			15.24%	4.27%	51.26%	66.90%	
Transp INDEX: 66				Total Cost				519.43		4.27%	51.26%	66.90%	
Loan Amount & Balance					Total Cost of Loan				Compulsory Deposit				
Per	Date	Disburse	Principle	Balance	Interest	Fees	Insurance	Taxes	Deposit	Interest	Withdraw	Balance	
Transparent Price (nominal APR)					36.02%	36.02%	36.02%	36.02%	51.26%				
Totals					4,000	4,000	519	0.00	0.00	1,200.00	3.92	-1,203.92	0.00
0	18-Nov-13	4,000.00	-	4,000.00	-	-	-	-	400.00	-	-	400.00	
1	16-Dec-13	-	454.00	3,546.00	112.00	-	-	-	100.00	-	-	500.00	
2	13-Jan-14	-	466.71	3,079.29	99.29	-	-	-	100.00	-	-	600.00	
3	10-Feb-14	-	479.78	2,599.51	86.22	-	-	-	100.00	-	-	700.00	
4	10-Mar-14	-	493.21	2,106.30	72.79	-	-	-	100.00	-	-	800.00	
5	7-Apr-14	-	507.02	1,599.28	58.98	-	-	-	100.00	-	-	900.00	
6	5-May-14	-	521.22	1,078.06	44.78	-	-	-	100.00	-	-	1,000.00	
7	2-Jun-14	-	535.81	542.25	30.19	-	-	-	100.00	-	-	1,100.00	
8	30-Jun-14	-	542.25	0.00	15.18	-	-	-	100.00	3.92	(1,203.92)	-	

This PDF was generated on 2014-03-04 using DCT version 5.43 (02-Jan-14) MPR: Monthly Percentage Rate APR: Annual Percentage Rate EIR: Effective Interest Rate

This PDF was generated on 2014-03-04 using DCT version 5.43 (02-Jan-14) MPR: Monthly Percentage Rate APR: Annual Percentage Rate EIR: Effective Interest Rate

Overall, we consider that we have a score of **Excellent** in this area.

### Key Goal 7

To increase our coverage, we will **motivate reluctant institutions** to participate by clearly indicating who has participated and who has declined. The majority will help to pressure the minority. We will also contact and encourage funders and networks to motivate individual MFIs to provide their data to MFT.

**Score: Good**

This approach served us well for the first years, but it took effort and determination on the part of the MFT team. The figures on months of effort and number of communications per MFI to publish a country demonstrate this (page 69). The figures also show that the process did not get easier with refreshing. In our first years, we also counted on, and received support from networks and funders to urge slow and reluctant MFIs to participate.

In Phase II, using partnerships for collecting data, MFT's staff were less involved in applying pressure, and there was an increase in MFIs choosing not to participate, even in refreshing data that already was published on MFT's website. In addition, some funders and networks were less willing insist on their partners participating. Instead, we commonly got responses like *"Our affiliate is focusing on some governance issues and unable to participate this time"*, and *"Our affiliate is addressing restructuring and isn't apply to dedicate the time to submitting the data this year."* In addition, in-country networks in the

countries where we were working often appear to be getting weaker in general and were not engaged in the transparent pricing work and unable or unwilling to apply pressure on their membership.

Overall, we consider that we have a score of **Good** in this area, but that grade wasn't earned without very hard effort.

### ***Key Goal 8***

With our data and knowledge, we will **urge regulators to implement Truth-in-Lending** laws and requiring MFIs to report their prices.

**Score: Mixed**

Our work with regulators increased dramatically in 2011-12, as MFT held major regional events to dialogue with and train regulators. Receptivity for the data and information we provided was very well received, but evidence is that having regulations replace MFT's self-regulation will be slow and provide partial coverage. Regulation processes generally move slowly, and in many countries, regulators are not involved in setting policy but only in implementing policy passed by the legislative branch. In addition, in many countries, regulators are responsible only for the soundness of the financial system, generally focusing more on savings than credit, and their mandate does not extend to areas of consumer protection, where truth-in-lending resides.

We often were told "*We understand the problems, and we are sympathetic to the issues, but this is outside of our jurisdiction.*" Still, many countries do have truth-in-lending legislation of some sort, and more countries are adding legislation or considering adding legislation. In 2013, MFT began publishing detailed reviews of existing truth-in-lending legislation around the world as a [resource center](#) for those wishing to critique their existing legislation and those wishing to develop new legislation that has limited loopholes (see page XXX).

Overall, we consider that we have a score of **Mixed** in this area. Our implementation was solid, but concrete results are difficult to achieve and beyond MFT's influence.

**Key Goal 9**

**Social investors and networks will screen their partners on their pricing**, will be very active in using MFTransparency's information, and will apply pressure on MFIs to set responsible prices.

**Score: Mixed**

MFT worked closely with social investors and networks and received strong support from them. However, we find that it has been difficult for social investors and networks to consistently make the necessary hard decisions to convert their good intentions into implemented policies. There are some examples where pressure was applied internally to MFIs to change their pricing policies, but these are generally confidential discussions. There are many examples that we can document with public information where MFIs declined to provide transparent pricing data to MFT, yet funders and networks continued to work with those MFIs. There are examples of MFIs that price well above others in the country, but relationships with funders and networks still continue.

There are positive initiatives such as TripleJump developing and publishing their [Pricing Traffic Light](#), Kiva continuing to study and evaluate the pricing of their affiliates, and Oikocredit beginning to collect pricing data on all of their affiliates. The majority of investors and networks do now incorporate pricing levels into their information systems and to some degree into their decision criteria, but it appears to generally be one of many criteria that are used to make the partnership decision. If the MFI scores well on the other criteria but chooses to hide their prices, they can still be accepted.

Overall, we consider we have a score of **Mixed** in this area, but that is primarily because of good intentions of investors and networks. We would more consider it a Poor on the basis of current actions. Much more progress needs to be made in this area for the industry to honestly be considered an industry committed to transparent pricing.

**Key Goal 10**

MFTransparency can extend beyond transparent pricing and be a leader in moving the industry toward **broader definitions of responsible practice, distinguishing ethical microfinance from opportunistic microfinance**.

**Score: Good**

We saw consistent progress over five years as expectations moved beyond transparent practice to responsible practice. MFT was increasingly involved first in discussing the concept of Responsible Pricing, though there are still disagreements on how to best define that concept and then to grade an MFI's pricing.

In addition, MFT was involved on panels and conferences to discuss and define the broader area of Responsible Practice. MFT's involvement was most notable on the topic of Responsible Profit, and we were invited and requested to speak more and more on that topic. In all three areas — Pricing, Profits, and Practice — there still are not definitions which are universally accepted, but discussions continue.

Overall, we consider we have a score of **Good** in this area..

### Summary of the Grades for the Ten Foundational Goals

The following table summarizes the ten grades – two excellent, two good, four mixed, one poor, and one failed. The poor and the failed scores are in the critical category of “sustainability”. The conclusion is that with inordinate effort in the coming years and donors and staff who do not fatigue from that effort, MFT might be able to continue collecting a substantial amount of pricing data. However, the grades of “mixed” in the areas of what impact that pricing data has had adds to the doubt that the effort would be worth it.

Ten Foundational Goals		Grades
<b>Changed Behaviors</b>		
1 New awareness of prices; commit to transparency		Excellent
2 Increased price competition and ethics		Mixed
<b>Sustainability</b>		
3 Refreshing data will be faster and cheaper		Poor
4 MFIs will pay the costs of data collection		Failed
5 Partner with other organizations to collect data		Mixed
<b>Leveraged Impact</b>		
6 Build trust through full transparency of the data		Excellent
7 Motivate MFIs to participate		Good
8 Urge regulators to pass truth-in-lending		Mixed
9 Investors will screen partners on pricing		Mixed
10 Industry will advance on responsible practice		Good



## 2014 — PHASE III: COLLABORATIVE DATA COLLECTION

MFT says "We won't do it ourselves any longer — it's your turn, and we'll show you how"

### Outline of Chapter

#### Assessing the Situation

Data Collection – Do we do it well? Is it making a difference?

Is data collection essential to MFT's existence?

Might collaborative data collection work?

Exploring the collaborative option

Benefits of the collaborative approach

Potentially less transparency for pricing data

Ensuring data quality

Taking the proposal public

One-on-one discussions

Decision to move forward with a pilot

#### Activities and Results for Phase III

Activity 1: Pricing Disclosure

Collaborative Data Pilot

The flow of information

Redesigning the methodology and website

Implementation timeline

Results of data collection in the pilot

Why the pilot failed

Pakistan data refreshing

Activity 2: Training and Education

Activity 3: Regulator and policymaker support

Activity 4: Industry voice and advocacy

#### In Sum – Progress, Setbacks, and New Learnings

Phase II led to the conclusion that pricing data could not be readily collected solely by expecting MFIs to volunteer willingly. Pricing data required assertiveness and persistence. This resulted in less data coming in, and no drops in the costs of collecting that data. In tandem with these realizations, the strategic plan showed the inability for MFT to generate income to offset the costs of data collection.

As a result, the MFT board and management made the decision in mid-2013 to cease data collection, even through the partnership approach. We made the decision to try one last approach, where we would enable others to collect data, a process we labeled collaborative data collection. We designed it such that the membership of data collectors could decide if there was an ongoing role for MFT after we initiated the process.

This chapter explains the logic behind that decision and the results of the pilot project.

## ASSESSING THE SITUATION

The struggles of collecting data in Phase II, combined with the feedback from the industry interviews done in the Strategic Assessment, led MFT's management and board to make a decision. We could not continue forward as we currently were structured; data collection was not sustainable. Could MFT continue without data collection? Could others do data collection? If others did data collection, could MFT continue forward focusing solely on data analysis and education?

### Data Collection – Do we do it well? Is it making a difference?

Our experience in 30 countries over 4 years, working with a variety of approaches all confirms that data collection has been reasonably effective but it is far from efficient, we are not sustaining high participation rates, and cannot attain frequent refreshings and cannot approach financial sustainable in our current configuration. There is no revenue stream beyond donors sponsoring a country, and that funding needs to be substantial in order to fund the persistent efforts it takes to collect data. In addition, the funder needs to be willing to be associated with the persistency applied.

If data were actually used in enough ways by enough stakeholders and were influencing enough decisions, it could arguably justify the effort and the subsidy to relentlessly collect it by our current procedures, but analysis in Phase II indicates slow progress in these areas. The majority of MFIs continue to price without consideration of the prices charged by other MFIs, i.e., the market price. National networks, international networks, and funders are not significantly changing their relationships based on the prices charged by their partners, nor even by the decisions of many MFIs to decline to be transparent on their pricing.

### Is Data Collection Essential to MFT's existence?

Given that data collection constituted 70% of MFT's operations in the past, we considered if it would be possible to go forward if data collection ceased. Keeping pricing information current is valuable, but not necessary for education. We had enough data to generate excellent analytical and educational materials. Data from a few ongoing "research countries" would augment the education and analysis services.

If data collection was taken up by others, this would potentially enable MFTTransparency to shift gears from the current heavy focus on data collection to a situation in the near future where the organization could

analyze the already collected data and use it in developing new meaningful publications, trainings, and education material and in influencing change through work with regulators.

We considered what alternative stakeholders might be able and willing to collect pricing data. MIX had chosen not to collect pricing data, but might be willing to host the publication of the data. The other transparency initiatives were too limited in scope to replace MFT. For example, SMART certification would happen for about 20-30 MFIs per year, only target large MFIs and never reach the volume of data that MFT has accumulated, and have no means to refresh prices. Ratings agencies rate a limited number of MFIs, do repeat reports only every few years at best, and the reports are confidential. SPTF and Cerise had the potential and desire, but coverage is a question, as is frequency of updating information, and giving the large number of questions in their surveys, pricing information could only be given superficial treatment.

However, there had been a very promising change in the industry over the past several years. Before MFT launched, only KIVA and Planet Rating had been collecting pricing information. Now a significant number of organizations had developed systems to evaluate pricing. Most of them were using MFT's definitions and tools to do so. In just the past two years, Oikocredit had collected pricing data from a vast number of their partners, and TripleJump had developed a pricing procedure and a pricing tool. Other funders were certainly doing the same, and most international networks (e.g., FINCA, Opportunity, ACCION) had indicated to MFT that they use our pricing procedures with their affiliates. The industry had gone from having very little pricing data to having a great wealth of pricing data, but most of that data was locked up in internal databases.

We decided to explore the idea of a collaborative approach to collecting pricing data.

## MIGHT COLLABORATIVE DATA COLLECTION WORK?

### Exploring the Collaborative Option

Our investigations distilled into three key factors:

- Others had started collecting pricing data
- That pricing data was confined, or trapped, inside their organization
- Funders have some degree of leverage over MFIs, getting higher cooperation from the MFIs than MFT.

International networks collect information from their partners for accreditation. Funders collect information during due diligence. When they request information, the MFI sees this as less "voluntary" and more as an "expectation." Some were including pricing information in their processes, and others were open to the idea.

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### Benefits of the collaborative approach

- **Efficiency:** If pricing data is collected at the same time as other data, it is a dramatically more efficient process. There is less effort required for negotiations, communications and scheduling.
- **Potential for on-site collect:** If bundled, other data is often collected on-site, and pricing data can be assembled much faster if the analyst is able to be on-site. It shortens the process of filling in missing information and correcting errors that consume much more time when done via back and forth emails.
- **Improved systems:** Although those currently collecting pricing data had been influenced by MFT's methodology and tools, all of them had done modifications and simplifications. Thus, the data they were collecting was not fully compatible with MFT's data, and the data also could not be pooled without reworking. The collaboration process could help to improve and systematize everyone's work.
- **Eliminate duplication:** There is also considerable duplication of effort, as many MFIs belong to a network or several, and receive funding from several social investors. Despite the overlap, all stakeholders are calculating the prices charged by that MFI independently, and then MFTransparency goes yet again to collect pricing information.
- **Larger databases:** A consolidated database that integrates all of our efforts in disclosing pricing data would be a groundbreaking resource for industry development, far superior in coverage to just the data currently published by MFTransparency. This consolidated database would have much greater potential to provide up-to-date pricing information and would increase the geographical coverage of available data.
- **Reduced reporting burden:** Currently, an MFI may provide data many times over, e.g. to their network, several funders, and to MFTransparency. Working together would make pricing disclosure less burdensome for the MFI by unifying definitions and standards.
- **Improved due diligence:** Sharing data would result in greater reliability to that data given that multiple viewers would review the data of each MFI. For example, a funder could see the data already collected by a network six months ago, which has been further confirmed by a different funder three months ago. Data reviewed in this way is less likely to include errors or omissions.
- **Less risk:** Broad collection of transparent pricing data would no longer leave the industry depending on just one institution, MFTransparency.

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### Potentially less transparency for pricing data

- Currently MFT treats product prices as a "public good". Our original idea was that current prices would be free and transparent. We see that after five years, the vast majority of the users of our website are industry stakeholders. Transparent pricing in principle doesn't mean everyone knows all the true prices.

- Some data could be public and some private. Data collected with donor money could be in the public pool. Different members could choose whether their contributions are public or behind the membership wall.
- Agreements could be reached with some members on having some level of information public, regardless of source
- Even in the case of some closed information, this would not seriously restrict many of the number of people who use our data. Our visitor base is mostly stakeholders. We could also establish rules on how other parties could qualify for, or purchase access. Regulators, analysts, or the media – parties that are not collecting and contributing data – could still be given rights to access the data. The main goal would likely be to disallow investors and networks who chose not to contribute data from seeing data others have contributed.

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### Ensuring data quality

- No MFI can submit data directly. It needs to find a "certified member" (network or investor or rater) who follows the rules and signs off on the accuracy of the data. All data posted on the website is clearly identified by who collected the data and the date the information was collected.
- Other members who have a relationship with that MFI will be monitoring the data and can also cross-check the data. They can have the ability to "confirm" that data on a specific date, or to register any comments or concerns about the correctness of the data.
- We can develop a system of "data quality stars" where an MFI that has more external stakeholders indicate they have reviewed the data, the more stars, and the more time that has lapsed since the last verification, the less stars.

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### Taking the Proposal Public

MFT decided to move forward and invite others to form a membership society and share data collection – investors, ratings agencies, international networks, national networks, responsible practice evaluators, and general analysts.

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### One-on-one Discussions

We began with one-on-one dialogue with a small number of organizations. Feedback was very positive from everyone, with cautionary notes in two areas:

- Many organizations would need to seek permission to share the data, as that wasn't part of their current data collection contracts, and
- Many expressed concerns about "free riders" having access to the data without contributing data from the MFIs they were connected with

Based on this feedback, we prepared a proposal letter, emailing it to fifty different organizations in August, and then followed up with phone calls to many of those and then meetings during travel in October and November. Around 40 organizations expressed willingness to stay in dialogue on the idea.

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### **Decision to Move Forward with a Pilot**

It isn't easy to get forty different organizations to agree on the rules and procedures for an initiative that has never been done before. A logical recommendation arising in many of the discussions was to begin with a pilot effort to test out some of the ideas and to serve as a demonstration effect for the larger group. We made a list of potential members for the pilot, covering a reasonably broad range of criteria.

We proposed the idea of the pilot to NPM, and Hivos stepped forward to manage the funding. In March 2014, I met in person, one-on-one with those on our invitation list to explain our evolved plans and to ask them to participate in the pilot. As word spread, we had a few additions to the pilot invitation list, and by May, all except one of them had agreed to participate. The final list was: Oikocredit, Kiva, TripleJump, Incofin, ACCION, ProMujer, Grameen Foundation, VisionFund, Opportunity, FINCA, and WWB.

## **ACTIVITIES AND RESULTS FOR PHASE III**

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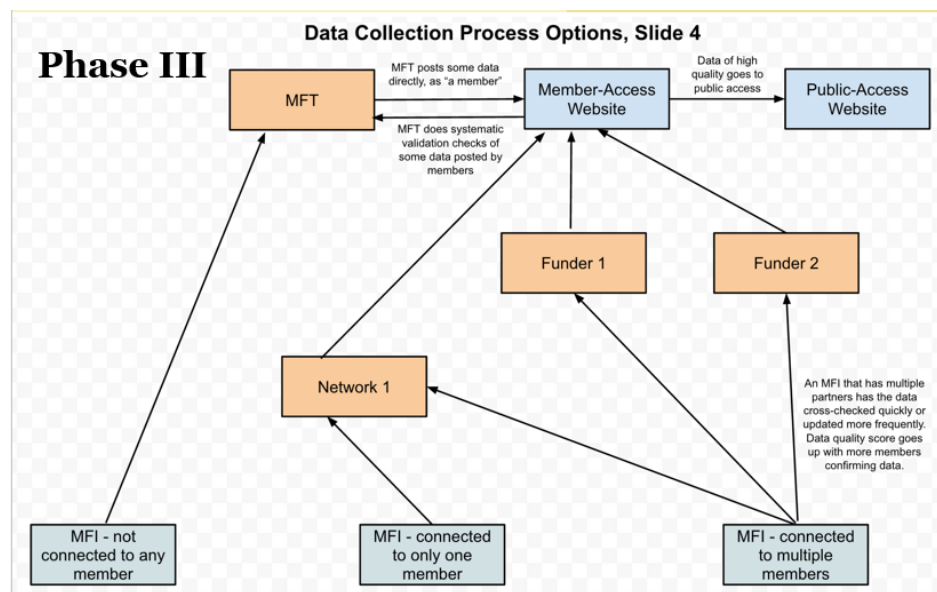
### **Activity 1: Pricing Disclosure**

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#### **The Flow of Information**

We agreed on the flow of information as follows (as depicted in the graphic below): MFIs may be affiliated with more than one network or funder participating in the pilot. One of those members gets assigned to collect their data, to avoid duplication of effort. In the pilot, all data gets reviewed by MFT staff before posting to the member-access website, but plans are that in the future, an analyst's work is only monitored for a period of time, after which her work can go straight to the website.

Data on the member-access website is only visible to other members. However, the future plans are that the data gets aggregated and anonymized for publishing to the public-access website. After 1-2 years, if membership grows and if they are comfortable about potential free-riders, some or all data can be released to the public-access website.



## Redesigning the Methodology and Website

### MFTRANSPARENCY'S SCATTERPLOT PRICING METHODOLOGY

Previous to Phase III, we had calculated prices only from recently disbursed real loan documentation. We collected between three and six samples per product and generated the exact price of those loans. We made every effort to get samples covering the range of conditions for that product, but there were cases where there could be gaps:

- A product with a wide range of both loan amounts and loan terms, together with complicated pricing, might not have the full span of the price range reflected in a small number of samples. For example, fixed upfront fees have a large impact on prices relative to loan size, and monthly payments of fees, insurance, or compulsory deposits have a large impact on prices relative to loan term.
- Products with varied pricing, such as when interest rates range from 30% to 45% or fees range from 1% to 3%, could escape having the full range of pricing reported. If we requested loans with the higher charges, the prices calculated would miss the lower range of pricing for the product. If the MFI gave us only sample with the lower charges, the prices would miss the higher range.

Recognizing the time involved in collecting and processing an even larger number of samples, our new methodology was designed to use less samples, give more complete results, and build in a means to determine the level of accuracy of those results.

The first step is to input the pricing components, their variations in range, and the means by which they are calculated. In the example below, all clients are charged 36% flat interest, but the disbursement fee ranges

between 1% and 3%. In addition there is a P.3 continuing fee charged with each payment. All clients have 10% of their loan put into a security deposit (i.e., savings) at loan disbursement.

Pricing Info		Variation	Min	Max	Type	Principal Payments		
1	Annual Interest Rate	-	36.00%	36.00%	Flat	Equal in each installment, exc. Grace & last pmt		
			NOTE: With flat, generally chose EQUAL IN					
			Percent			Fixed		
Fees		Variation	Min	Max	Based On	Min	Max	Based On
2	Disbursement Fee #1	A Lot	1.00%	3.00%				
	Disbursement Fee #2	-						
3	Continuing Fee #1	-				3.00	3.00	Per payment
	Continuing Fee #2	-						
			Percent			Fixed		
Insurance		Variation	Min	Max	Based On	Min	Max	Based On
	Disbursement Ins. Fee #1	-						
	Disbursement Ins. Fee #2	-						
	Continuing Ins. Fee #1	-						
	Continuing Ins. Fee #2	-						
Taxes			% Ln Amt	% Fees		Fixed Amt	Note: Only use this section if t	
Taxes, Upfront								
			% Prin	% Int	% Fees	Fixed Amt		
Taxes, Ongoing								
			Percent			Fixed		
Compulsory Deposit		Variation	Min	Max	Based On	Min	Max	Based On
4	Comp.Dep, Prior	-	10.00%	10.00%	of loan amount			
	Comp.Dep, During	-						
	Annual Int on Comp.Dep							
Components:		4						
Ongoing:		1						
w/Variation:		1						

The next step requires estimations of how the loans are spread out by loan amount and by loan term. In this example, 10% of the loans are under P700, 20% are in the range of 700-1,400, and so on. For loan terms, half the loans are 6 months and half are 9 months. These figures do not need to be precise. Approximations give very reliable results. The orange cells in the center of the left matrix show estimates of how the 10,000 clients of this loan product are distributed. Few loans are under 700, so fewer clients are indicated in that row.



**Step 2: Decide Sampling by Loan Amount and Term** [Click for STEP 2 Video](#)

**Ok**

Loan Amount		Term Min/Max: 6-9		Loan Term						Value to use		Dist%		Clients		Amt \ Term	
Min	Max			<3	4-6	7-9	10-12	13-18	>18								
5%	701	700	10%	700	500	460								1,000	700		
10%	1,401	1,400	20%	1,100	1,000	960								2,000	1,100		
25%	3,401	3,400	25%	2,500	1,250	1,250								2,500	2,500		
50%	6,901	6,900	25%	5,200	1,250	1,300								2,500	5,200		
75%	10,001	10,000	20%	8,700	1,000	1,080								2,000	8,700		
100%	14,001	14,000		-										0	-		
200%	28,001	28,000		-										0	-		
500%	> 69,000			-										0	-		
Total			100%	N/A										0			

**Ok**

**Select Samples in the White Cells Below**

Loan Amt:	4	Var Price:	1
Term:	2	RepFreq:	1
8	<-Optimal number of samples to choose below		
	1	2	3
	4	5	6
	7	8	9

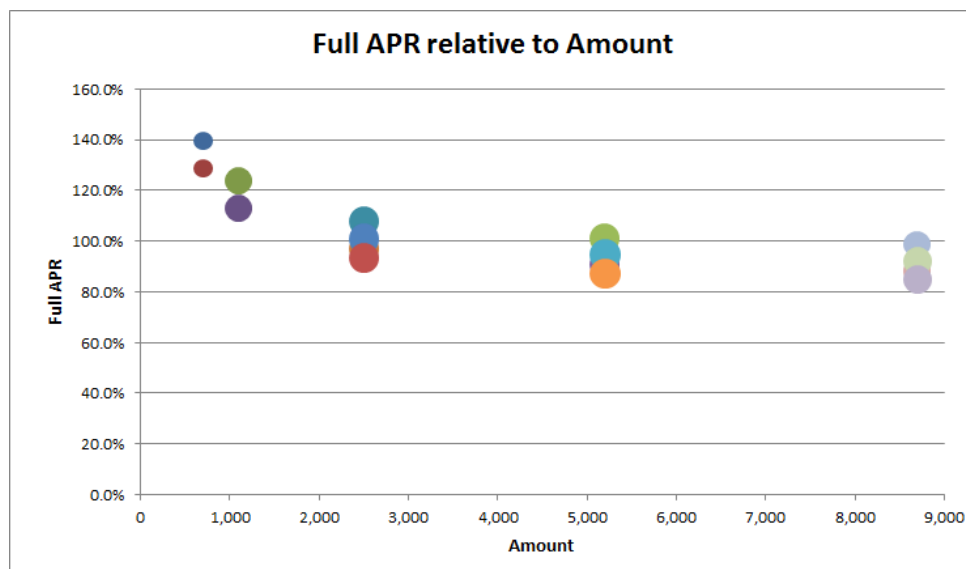
**Ok**

The matrix on the right side of the figure allows the analyst to pick a number of samples. In this case there are 8 samples identified, and each sample has a specified loan amount and loan term.

The next section of the tool then generates variations on the eight samples, if necessary. In this case, there are different fees charged, so the tool has created two variations for each sample, charging 1% to one variation and 3% in the other. The tool does allow the user to alter this, e.g., maybe loans under P.1000 always pay 3%, or maybe there are some loans that are charged 2%.

Sam-Var	LoanAmt	LnTmMon	SampleNum	VarNum	SampClients	N/A	NumPmts	GraceMon	Frequency	Interest	IntMethod	Fee1UpPc	Fee1UpFix	Fee1OnPc	Fee1OnFix
1	700	6.0	1	1	500		25	0.00	7	36.00%	Flat	3.00%			3.00
2	700	6.0	1	2	500		25	0.00	7	36.00%	Flat	1.00%			3.00
3	1,100	6.0	2	1	1,000		25	0.00	7	36.00%	Flat	3.00%			3.00
4	1,100	6.0	2	2	1,000		25	0.00	7	36.00%	Flat	1.00%			3.00
5	2,500	6.0	3	1	1,250		25	0.00	7	36.00%	Flat	3.00%			3.00
6	2,500	6.0	3	2	1,250		25	0.00	7	36.00%	Flat	1.00%			3.00
7	2,500	9.0	4	1	1,250		38	0.00	7	36.00%	Flat	3.00%			3.00
8	2,500	9.0	4	2	1,250		38	0.00	7	36.00%	Flat	1.00%			3.00
9	5,200	6.0	5	1	1,250		25	0.00	7	36.00%	Flat	3.00%			3.00
10	5,200	6.0	5	2	1,250		25	0.00	7	36.00%	Flat	1.00%			3.00
11	5,200	9.0	6	1	1,300		38	0.00	7	36.00%	Flat	3.00%			3.00
12	5,200	9.0	6	2	1,300		38	0.00	7	36.00%	Flat	1.00%			3.00
13	8,700	6.0	7	1	1,000		25	0.00	7	36.00%	Flat	3.00%			3.00
14	8,700	6.0	7	2	1,000		25	0.00	7	36.00%	Flat	1.00%			3.00
15	8,700	9.0	8	1	1,080		38	0.00	7	36.00%	Flat	3.00%			3.00
16	8,700	9.0	8	2	1,080		38	0.00	7	36.00%	Flat	1.00%			3.00

Once the modifications are entered, the tool then generates the prices of all sixteen samples, and they are displayed in the pricing scatterplots. The graph below shows the pricing related to loan amount, but the tool include a graph of pricing related to loan term, as well as numerous analysis tables for studying the impact of the price components. In this example, we see that prices range from 80% to 140%, and the prices follow the theoretical pricing curve.



To determine if these automatic price calculations are reliable, the analyst requests two real loan samples for one of the products of the MFI. The analyst calculates the prices of those samples using the loan documentation and compares those prices to the auto-generated price of a loan of the same amount and term. If the prices differ, then there are either errors in the inputs or the MFI calculates interest or applies fees differently than done in the software. If the prices are very close to the same, then the analyst can assume that the data is entered properly and the MFI's procedures match standard procedures incorporated into the software.

## WEBSITE CHANGES

The new rules about member-only access required modifications to our website and database. With the new design implemented in Phase II, changes to both were straightforward and made easily. The new system allowed us to assign different levels of access to all data points. MFIs would be able to see their data, but not others. We could decide to allow members to only access country data where they had provided data, but not others. We could allow members to see only their own data, but not data from others. The system is now quite versatile and able to handle changes that the membership might request in the future.

## Implementation Timeline

With the ten partners in agreement and funding approved, we initiated work in June 2014. We generated a list of ten potential countries — five as countries to refresh data and five as first-time countries. The countries represented a blend of geography and market maturity, so that we would be able to test the pilot under varying conditions. We then asked each partner to complete a survey form indicating who they fund in those countries.

When the results were in, the total number of MFIs affiliated with the ten members was noticeably lower than what we had earlier collected from MIX, indicating that funding relationships change quickly and that MIX funder lists get updated slowly. We decided which five countries had the best coverage and diversity and then assigned MFIs to each member.

An example for Nicaragua is shown below. Showing the potential of the approach, 17 of 35 MFIs were covered by at least one of the 10 organizations in the pilot, and 7 of the 17 had overlap of multiple relationships with our ten partners.

Client Coverage		355,862	291994	1	1	0	0	2	6	5	1	0	1	0	0
Total MFIs per funder			82%	1	1	0	0	2	6	9	1	1	5	1	0
Nicaragua			Total	Pilot Participants											
#	MFI name	Clients	Funders	Accion	FINCA	Freedom from Hunger	GFUSA	Incofin	Kiva	Oikocredit	Opportunity	Pro Mujer	Triple Jump	VisionFund	WWB
1	ACODEP	7,615	0												
2	ADIM	3,390	1						X						
3	AFODENIC	4,654	2						X	x					
4	ANFAM Credito		0												
5	Asociación Alternativa		0												
6	ASODENIC	17,531	1								X				
7	ASODERI	854	0												
8	BANEX	23,931	1							X					
9	Caritas Esteli	1,210	0												
10	CEPRODEL	9,824	1						X						
11	Coop 20 de Abril	5,882	1							X					
12	Coop Avances	2,365	0												
13	Cooperativa Armonía	1,457	0												
14	Cooperativa laquei	6,133	0												
15	Cooperativa La Unión	1,522	0												
16	Cooperativa Moderna	2,018	0												
17	FDL	55,303	2							x			X		
18	FINANCIA CAPITAL	4,493	0												
19	Financiera Fama	42,049	2	X										x	
20	FINCA - NIC	27,561	2		X									x	
21	FINDE	143	0												
22	FODEM	2,669	1							X					
23	FUDEMI	4,370	1							X					
24	Fundación 4i-2000	4,065	1												
25	Fundación LeAñ 2000	2,008	1						X					x	
26	Fundación Nieborowski	4,552	0												
27	FUNDENUSE	9,935	1							X					
28	FUNDEPYME	1,160	0												
29	FUNDESER	23,097	3					X		x				x	
30	MicroCredito	3,921	2						X	x					
31	PANA PANA	1,604	1						X						
32	PRESTANIC	4,924	0												
33	Pro Mujer - NIC	50,200	3					X				x		x	
34	ProCredit - NIC	12,666	0												
35	PRODESA	12,756	0												

During June and July, MFT staff worked intensively at reworking of the data collection methodology and software, as well as making the changes to the website and database. We also generated a complete set of training materials that the new analysts could access from our website and complete mostly independently. The materials were divided into six lessons and contained exercises and homework as well as two meetings on skype with our staff to discuss their work. An example of the materials for Lesson 2 are shown below.

## LESSON TWO: FILLING THE DATA COLLECTION TOOL

This lesson is a long one! But it's really important. You'll see from the three videos all the steps that the MFI goes through in filling in the DCT. Then it's your turn to practice.

### I. INTRODUCTION TO THE DCT

#### 1. Essential Material

**Reading:** Instruction Manual, Review Submitted Data, P 5 – 11 (...please see the downloaded manual)

**Video 3:** DCT – Overview and Introduction (10 minute) (...you can watch the video further below)

### II. HOW TO FILL THE DCT FOR THE FIRST TIME

#### 1. Essential Material

**Video 4:** Overview of Step 1 & 2 of the DCT (30 Minute) (...you can watch the video further below)

**Video 5:** Overview of Step 3 Prod Details (30 minute) (...you can watch the video further below)

**Video 6:** Overview of Step 4 Loan Samples (15 minute) (...you can watch the video further below)

### III. EXERCISE ONE: FILLING THE DCT

#### 1. Essential Material (30 minutes)

**Instruction:** Exercise One, Instructions

**Exercise one:** Download Empty DCT

**Exercise one:** Download Institution Info

**Exercise one:** Download Product1 Sheet, Product 2 Sheet

**Exercise one:** Download Repayment schedule 1 and Repayment schedule 2

Tell us your feedback about the lesson at [pilot@mfttransparency.org](mailto:pilot@mfttransparency.org).

Training was ready by the beginning of August, but many of the analysts were on a European vacation schedule and didn't start the training until September. We found that, while well-intentioned, the analysts assigned to the project had little or no understanding of the goal of the project. For months, our discussions had been at higher levels of the partner institutions. There was a high degree of cooperation and support at these levels but we then had to generate that same level of cooperation with new people with whom we had no previous relationship. They were assigned to the project, and the work was added on to their current work load. The result was that many analysts assigned the training and the work to a relatively low priority.

On average, they were assigned to contact a couple of MFIs, and if the MFIs cooperated, the work could have been completed in a few weeks. We had log sheets on Google Docs to monitor the communications between the analysts and their assigned MFIs. A few analysts made rapid progress, but interestingly these were interns the partners had assigned to collect the data. The full-time staff were much slower in contacting their MFIs.

We had originally assigned a deadline of end-November, expecting this to be more than enough time, but progress went very slowly, and we had no choice but to extend it to end-December. With year-end closing activities for MFI management, as well as holiday seasons, the end-December deadline showed no additional progress.

We communicated very clearly that end-January was the very latest we could extend the pilot. Activity picked up noticeably, but by the end of the month we had a number of MFIs in the middle of data collection

but not finished. The analysts took it upon themselves to give extra effort in the first days of February, and in the next two weeks they completed data for several MFIs.

The final results are summarized in the following section.

### Results of Data Collection in the Pilot

The first table shows that MFT assigned a total of 64 MFIs, distributed among five countries. The initial assignments of MFIs had not been distributed equally among every partner, and as a result many agencies decided to work with only a subset of the MFIs we sent them. There were also a few special cases (MFI no longer active, or member no longer working with the partner). The three columns on the left total 25 of the 64 MFIs not being contacted. The right two columns show that partners contacted a total of 39 MFIs. Of these, 20 declined and 19 accepted, and about half of these were in just one country, the Philippines. The 19 who accepted represent 30% of the total we originally hoped to include in the survey.

By Country	Distribution of MFIs assigned by MFT (64)					
	Member Declined To Collect Data	MFI no longer active	Member no longer has relation with MFI	MFI Declined or No Response	MFI Accepted Participation	Total MFIs
Sub-Total - Philippines	10	0	0	3	9	22
Sub-Total - Azerbaijan	2	0	0	4	2	8
Sub-Total - Nicaragua	3	2	0	6	7	18
Sub-Total - Dominican	5	0	0	5	1	11
Sub-Total - Georgia	2	0	1	2	0	5
<b>TOTAL (64 MFIs)</b>	<b>22</b>	<b>2</b>	<b>1</b>	<b>20</b>	<b>19</b>	<b>64</b>
<b>Percentage of Total</b>	<b>34%</b>	<b>3%</b>	<b>2%</b>	<b>31%</b>	<b>30%</b>	<b>100%</b>

The left side of this next table below shows the results of the 19 MFIs who agreed to participate. Seven of them never sent any data, four of them sent some data, but did not complete the process, and eight of the 64 MFIs went completely through the data process, or 13% of the original 64. The country with the most quantity was Philippines (a country where we were refreshing data). Nicaragua (a "first time" country) had a relatively high percentage agree to participate (7 of 18), but only two of the seven completed the process.

By Country	MFIs who Accepted (19)					MFIs who Completed the Process (8)					
	Number who Accepted	MFI Accepted but send no data at all	MFI Started but didn't complete	Process complete	% Complete	Fully by Analyst (2)		MFT Involvement (6)		Total (8)	
						Started by Analyst	Complete by Analyst	Started by MFT	Started by Analyst	Complete by MFT	Total Completed
Sub-Total - Philippines	9	4	1	4	18%	4	2	0	2	2	4
Sub-Total - Azerbaijan	2	0	0	2	25%	1	0	1	1	2	2
Sub-Total - Nicaragua	7	3	3	2	11%	0	0	2	0	2	2
Sub-Total - Dominican	1	0	0	0	0%	0	0	0	0	0	0
Sub-Total - Georgia	0	0	0	0	0%	0	0	0	0	0	0
<b>TOTAL (64 MFIs)</b>	<b>19</b>	<b>7</b>	<b>4</b>	<b>8</b>	<b>13%</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>6</b>	<b>8</b>
<b>Percentage of Total</b>	<b>31%</b>	<b>11%</b>	<b>6%</b>	<b>13%</b>		<b>8%</b>	<b>3%</b>	<b>5%</b>	<b>5%</b>	<b>9%</b>	<b>13%</b>

The right side of the above table analyzes the eight MFIs who completed. Analysts started the process with five of the eight, but only were able to complete two of the eight. The remaining three that the analysts

started were ultimately finished by MFT staff. In addition, MFT did the data collection process from start-to-finish for another three MFIs.

As the original goal was that analysts do the entire work, the end results of that happening with only two of the 64 MFIs were quite discouraging. In addition, the original timeline was three months (to end 30 Nov). Because of slow responses, we extended that twice, by a month each time, extending to 31 Jan. When 31 Jan arrived, we actually only had one of the eight complete. The analysts put in some intense last minute effort, and the other seven were finished after the deadline, in February.

The end results were extremely disappointing and surprising to all involved in the pilot. All had begun the pilot with optimism and expected a reasonable amount of success that could continue in a broader effort. We dialogued to determine what went wrong.

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### **Why the pilot failed**

When the pilot completed, MFT decided to develop two survey questionnaires, sending one to the main contact person in each organization and the second to the data analysts. Everyone participated in the survey, and the results showed:

- the overwhelming majority said the tools and process seemed to be well-designed;
- the training materials were good, but took more time than they could afford;
- most said they would need additional practice to feel comfortable with the process;
- nearly all said that it was quite challenging to get MFIs to participate fully in the pilot.

The difficulty of getting MFIs to agree matched MFT's experience in the six years we did data collection – most MFIs are reluctant, or nervous, or distracted with other tasks, or unable to put together the required data. MFT got high participation rates primarily because we were very persistent. However, many of the analysts told us that, because of the relationship they have with the MFI, they were not able to be as persistent as MFT was in previous years. Several organizations also told us that they have to take into consideration that other funding sources do not insist on MFIs being transparent on their pricing; being the funder placing additional demands on the MFI puts them at a competitive disadvantage.

The decision to not continue forward with the collaborative approach was clear, resulting in MFT's announcement in March 2015 that it would cease operations. Further details are in the next chapter.

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### **Pakistan refreshing**

Our partnership with Pakistan Microfinance Network (PMN) was described on page XXXX. The first round of data collection in 2013 was reasonably successful though it took a significant amount of work. Our agreement was that the PMN would refresh data yearly for the next two years and MFT would publish it.

Staffing changes at PMN resulted in some delays and the need for MFT to train a new analyst. Data collection began April 2015 and went reasonably fast, with new data being published by mid-July. However, 10 of the 36 MFIs who provided data in 2013 declined to refresh their pricing information. Combined with the 20 MFIs who declined to participate in 2013, the statistics are that 26 have recent pricing data displayed, 10 have data that is 18 months old, and 20 never provided data.

## ACTIVITY 2: TRAINING AND EDUCATION

Other than intensive training of the new analysts participating in the pilot project, training and education activities were significantly scaled back in 2014 as MFT focused on the collaborative approach and the possibility of MFT ceasing operations.

Two notable presentations were on the topics of responsible practice and responsible profit and are described in Activity 4.

## ACTIVITY 3: REGULATOR AND POLICYMAKER SUPPORT

In Phase I and II, MFT organized and delivered a variety of training events and generated a library of documents for regulators.

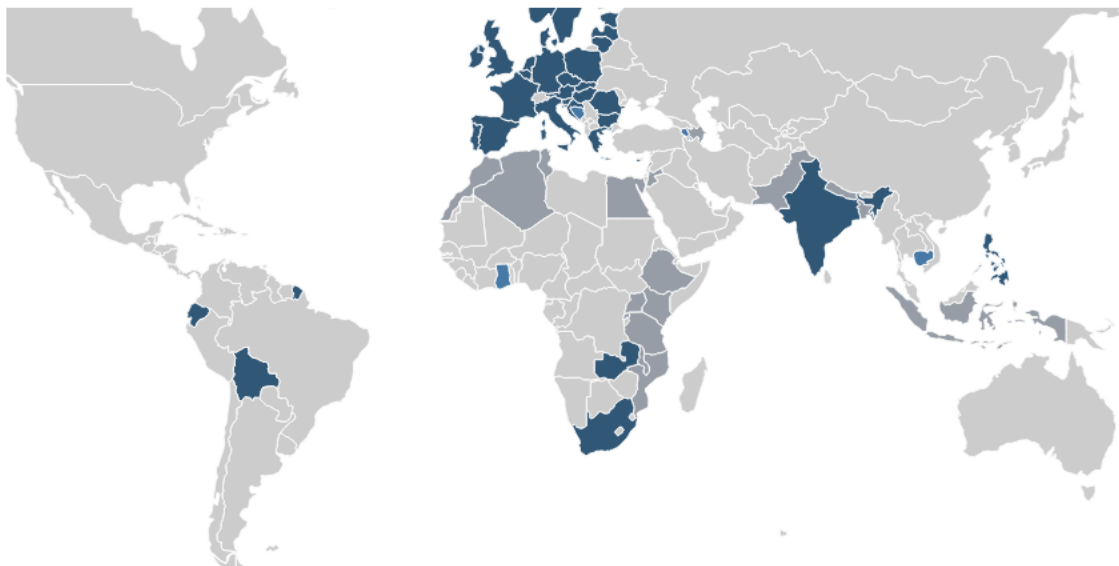
As follow-up on this in Phase III, MFT developed a Pricing Regulation section to the website for use by regulators interested in reviewing and comparing existing legislation in other countries as they evaluate or formulate their own policies.

The regulation section provides a comprehensive overview of truth-in-lending in a variety of countries, combined with country-specific pages giving a systematic review. MFT's staff worked together with a team of external lawyers to review the latest legal documentation in each country.

A screen clip of a portion of the home page of this section is shown on the next sheet.

## Pricing Regulation

Welcome to MFTransparency's dedicated truth-in-lending regulation platform. Here you will find a variety of resources describing truth-in-lending legislation and client protection regulation and practices. On this page, MFTransparency, together with its key partners, has researched and listed regions and countries implementing truth in lending laws. When you click on each country/region, you will find country pages showing overview of the law, a link to more detailed legal analysis and additional resources.



Country/ Region	Has T-in-L legislation?	Applies to	Standard Formula?	Calculation method		Pricing Comp					Banned Pricing Practices	Communicated to Client	Data reviewed
				Nom	Comp	Int	Fee	Ins	Tax	Dep			
Zambia	2012	All lenders	EIR		x	x	x	x		x	Flat	Contracts Schedules In Branch	01-2015
South Africa	2008	All lenders	Total Cost of Credit			x	x		x			Contracts Schedules Media	01-2015
Bolivia	2013	All Lenders	APR	x		x	x	x			Fiat	Contracts Rep Scheds In Branch Media	12-2014
Ecuador	2014	All lenders	EIR		x	x	x	x	x	x	N/A	In Branch Media Repscheds Media	12-2014
Philippines	2012	All lenders except NGOs	EIR		x	x	x	x			Fiat	Contracts, Schedules, In Branches	11-2014
India	2014	NBFC-MFIs	APR	x		x	x	x			Fiat, Dep, Penalty	Contracts Schedules In Branch Media	10-2014
European Union	2008	All Lenders	EIR		x	x	x	x	x	x	Fiat	Media In Branch Contracts Rep Scheds	11-2014



## ACTIVITY 4: INDUSTRY VOICE AND ADVOCACY

MFT made several key presentations in this period centered on the topic of defining Responsible Pricing. Two of them have recordings that can be reviewed:

- MFT was invited to make a "Microfinance Lunchbreak" presentation in Brussels on After Transparency, How to Define Responsible Pricing?, an event which was recorded [here](#).
- MFT also participated in a plenary session at the Micro Credit Summit, held in Mexico, on the topic "Making Markets Safe for the Vulnerable". My presentation was written up in detail in a [blog by NextBillion](#), and I made a follow-up recording of our presentation [here](#).

I expressed strong concerns about the industry relying on self-regulation alone to promote responsible behavior. Among the points I raised are:

- Participation is voluntary, meaning participation is selective and far from universal
- Responsible practice certification requires decisions on difficult and sensitive topics, and reaching decision on these topics is much more difficult when those making the decisions are themselves self-interested parties. Objectivity is extremely difficult, if not impossible.
- We see examples of self-regulation that have, in fact, been heavily manipulated by self-interest, e.g., South Africa (see page 31)
- External regulation has been shown to be effective in reducing or eliminating abuses, such as in India (see page 28)
- Without obligatory participation, we simply cannot restrict abusive practices in areas such as product pricing and over-indebtedness. The actions of a few lenders can take actions that harm all others in the market, both lenders and borrowers.

Several of my presentations on the subject of Responsible Profit expanded beyond the content I was using in Phase II. In particular I challenged the Smart Campaign on their continued policy of not evaluating profit levels in their certifications. My comments are most direct in my presentation at the Micro Credit Summit, held in Mexico, one week after the Smart Campaign announced its certification of Banco Compartamos.

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*You can make money from the poorest people in the world — is that a bad thing, or is that just a business? At what point do we say we have gone too far?*

Chuck Waterfield, CEO, MFTTransparency; NY Times, 2010-04-14

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## IN SUM — PROGRESS, SETBACKS, AND NEW LEARNINGS

Five years of operations and the feedback from the strategic plan showed there was no light at the end of the tunnel if MFT were to continue with data collection. However, we found that other stakeholders had begun to collect pricing data, inspired by MFT's work but unable to find pricing data for all countries on MFT's website.

MFT approached funders and networks to ask if they would be willing to pool the pricing data they were collecting. Responses were very positive, so we moved forward with a pilot involving ten partners collecting data in five countries.

The desire was evident, but the realities of the costs of doing additional data collection, a reluctance to pressure MFIs to provide their data resulted in extremely low percentage of data being collected. The ten partners presented completed data from just two of 64 MFIs. They presented partial data on another three MFIs. Based on the failure, MFT communicated it would cease operations.

MFT followed up on the regulator training of 2011-13 by setting up a Regulation Resource Center on the website.

MFT's presentations in Phase III focused primarily on the topics of Responsible Pricing and the weaknesses of self-regulation.

## 2015 — MFTTRANSPARENCY DECIDES TO CEASE OPERATIONS

Voluntary participation, when not backed by broad industry pressure,  
cannot be sustained



## THE INSURMOUNTABLE CHALLENGES OF DATA COLLECTION

After nearly seven years of effort collecting pricing data, MFT's board and management concluded that we had exhausted all possibilities to play a lead role in the collection of pricing data. To summarize:

In Phase I (2009-2011), MFT collected pricing data directly from MFIs, as pricing transparency was untested ground and we were helping MFIs in many countries to transition to transparent pricing for the first time. Because this was a new experience for each MFI, it was expensive and time-consuming to dialogue with each one and guide them through the process. With perseverance, we succeeded in getting very high participation rates.

In Phase II (2012-13), we started partnering with other organizations to collect data, focusing mostly on updating pricing data that was already published. We worked with two national networks and a ratings agency, expecting it to be an easier task to update prices. However, despite sincere efforts, none of our partners found the task to work smoothly. It still required a great deal of communication and negotiation with the MFIs. We did still receive data from a large percentage of the MFIs, but again it proved to be an expensive and time-consuming process. At the same time MFT, like other microfinance data collection agencies, was being encouraged to be financially sustainable.

In Phase III (2014), we communicated to the industry that MFT had one last option to explore. We invited funders and international networks to collect pricing data from the MFIs they worked with and then to pool that data be shared with the industry. The response was overwhelmingly positive, and ten organizations volunteered to participate in a pilot test. MFT developed a streamlined data collection process, trained analysts from the investors and networks, and the analysts then contacted a sampling of the MFIs they work with. Despite the desire of everyone for this to work, the response rates were very low.

A frequent comment from analysts involved in Phase III was a deep respect for MFT's successes in collecting pricing data, because they now understood first-hand how much effort it takes. We at MFT certainly knew the challenges of collecting this data and keeping it updated, but we had hoped that the process would be easier for those with an ongoing, close relationship with the MFIs than it was for MFT as an independent outsider. That proved conclusively to not be the case. Overcoming the hurdles we listed earlier still requires persistence. There are no easy solutions to the challenges of collecting pricing data.

### Transparent Pricing - "Suffer if I do, safe if I don't"

Among MFIs, hesitation to participate and decisions to decline participation were common. The hurdles were many. For some, there was reluctance to be in the transparent minority; for others, there was fear of public criticism, the struggle to submit yet one more report to an external agency, and the challenge of understanding the technical nature of the requested information.

The main dilemma with voluntary pricing transparency from the perspective of the MFI can be described as "I potentially suffer if I do publish my prices, and I'm safe if I don't".

Governmentally-regulated transparency can motivate widespread participation because if you don't comply, you get punished. Our industry-based voluntary transparency currently doesn't motivate widespread participation because if you don't comply, there are no serious punishments. Sadly, even after seven years, international networks and funders are mostly tolerating non-participation. An MFI can decline to provide data to MFTransparency without that decision terminating their relationship.

To some degree, there is also less pressure put on MFIs to submit their data because both investors and international networks are moving toward collecting pricing data as part of their internal data gathering and due diligence. That pricing data does not become publicly transparent pricing data, and it also reduces the need to have publicly transparent pricing data.

### Age of prices in the MFT database

MFT collected an impressive amount of data since 2009, but much of that data is quite old and does not come close to meeting our original goals to provide current pricing in microfinance. The table below shows the aging of data, by country. Of the 427 MFIs with published data, only half of that data is less than 2 years old. Forty percent is more than three years old. The data provides a rich and useful source for analyzing pricing in microfinance, but it is not a source for monitoring current market prices.

As published data grows older, as new data comes in slowly and only with great effort, our conclusion is that despite seven years of hard work, the industry's internal values and external expectations have not changed sufficiently for MFT to continue.

## THE DECISION TO CLOSE DOWN

Since our announcement, many have asked about why MFT made this decision, and this seven-year history report was motivated in part to explain our decision.

This section provides some additional feedback to common questions we received:

### **Will the MFT website, tools and resources disappear?**

Although no new pricing data will be published, MFT's website will remain online. In addition, MFT released a variety of new pricing tools and analytical reports over the four-month closing process that enable those in the industry to continue incorporating pricing data into their procedures, and to evaluate whether those prices balance the needs of the client with the needs of the business. These tools are described in the next chapter.

Name of Country	Last Country Refresh	Age of Data						Total Number of MFIs
		< 12 months	13-24 months	25-36 months	37-48 months	49-60 months	>60 months	
Unpublished Countries								
Ecuador	2010				1	26		27
Bosnia & Herzegovina	2011				3	11		14
Colombia	2011			1	16	7		24
Ethiopia	2011			17				17
Philippines	2011				43			43
Zambia	2011	1			11			12
Azerbaijan	2011	3		1	1	6		11
India	2012	1	39		29			69
Malawi	2012		9			1		10
Cambodia	2013	1	12			1		14
Ghana	2013		37		6			43
Kenya	2013	1	14			3		18
Mozambique	2013	2	6	2				10
Rwanda	2013	1	9	4				14
Tanzania	2013	3	12		4			19
Uganda	2013	2		19	2			23
Bolivia	2014	18				4		22
Morocco	2014	1	5					6
Pakistan	2014	25	6					31
Total (Published)		59	149	44	116	59	0	427
Percent, Published (%)		13.8%	34.9%	10.3%	27.2%	13.8%	0.0%	
Unpublished Countries								
Argentina	2010						3	3
S.Africa	2010						0	0
Senegal	2011						15	15
Burkina Faso	2011						18	18
Mali	2011						16	16
Togo	2011						14	14
Benin	2011						15	15
Guinea-Bissau	2011						4	4
Niger	2011						16	16
Total (Unpublished)		0	0	0	0	0	101	101
Grand Total		59	149	44	116	59	101	528
Grand Total (%)		11.2%	28.2%	8.3%	22.0%	11.2%	19.1%	

### Did you run out of funding? Can we help you get more funding to continue?

This was not at all the situation. MFT's policy has always been to only seek funding when we believe funding can produce solid results. After trying three approaches for data collection, all evidence showed that the collection of a large volume of pricing data could not be done sustainably. The last funding MFT sought was in mid-2014, to fund the pilot of Phase III. With the pilot demonstrating that the collaborative approach was unviable, MFT chose to not seek any additional funding. From March through June 2015, MFT was able to phase out operations without any incomplete obligations.

**This came as an unexpected shock. Why didn't MFT reconsider and continue?**

Those of you who have followed us closely will know that while this news is disappointing, it is not entirely unexpected. In 2013, MFT stated clearly to the industry that we would [no longer work alone](#) to collect pricing. We had found that it requires a great deal of communication and negotiation to get MFIs to voluntarily share their pricing data with an independent NGO like us. We knew this would be the case when we first started, since transparent pricing was a new area at that time. But we were disappointed that this continued to be the case, even when asking MFIs to refresh data that was already published on MFT's website.

In all three approaches to collecting pricing data that we tried, whether operating alone or operating through or with other partners, we ran into the same challenge: MFIs are either reluctant to become vulnerable by voluntarily sharing their pricing data (the majority of the industry), or they are simply unwilling to do so (a small portion of the industry). There is nothing more that MFT can do as an independent institution to change this.

## 2016 AND BEYOND — NEXT STEPS FOR TRANSPARENT AND BALANCED PRICING

Transparent pricing wasn't the end goal, responsible pricing was.  
Responsible lenders can price responsibly without broader transparency.

MicroFinance Transparency's decision to close doesn't mean that we believe the industry's attention to transparent pricing is dead or a failure. We do expect and encourage the industry to continue its progress on divulging the true price MFIs charge on loans to the poor. But we also want to emphasize that the industry really must do a much better job of judging pricing data, not just collecting pricing data. Too many stakeholders assume transparency to be the end goal and haven't yet sufficiently incorporated judgements about responsible pricing into their decision-making processes.

This chapter outlines how MFT's experience, pricing database, and tools can continue to be used to advance toward responsible pricing. Given current proposed definitions of the term responsible pricing, MFT uses the term Balanced Pricing, a term which we feel conveys the appropriate goal, as we will explain in this chapter.

### THE GROUNDWORK IS LAID

Defining and judging balanced pricing required us to first use transparent pricing to learn about our pricing. We now have seven years of pricing data for 50 million clients. That is sufficient to now determine balanced pricing. Further transparency is optimal, but it isn't necessary.

We will first discuss if there means to continue forward with transparent pricing, and then proceed to the topic of balanced pricing.

### Continuing Forward with Transparent Pricing

#### Can some other organizations carry on the work of transparent pricing?

MFT has explored options for others to take on the responsibility of collecting and publishing pricing data. Although a number of organizations are receptive to publishing pricing data, there is the reality that if data doesn't come in, there isn't any data to publish.

Undeniably, the challenging part is collecting the data. Most MFIs are concerned about their competitive advantage, as well as public and political reactions to making the true price public. And while regulators can



obligate transparent pricing, self-regulation can only encourage and incentivize transparent pricing. That means that, given sparse and inconsistent national [truth-in-lending requirements](#), any future data collection will be at reduced scale, not able to cover large percentages of the market in a typical country – as MFT was able to do only through diligent efforts.

But even so, some pricing data will continue to be voluntarily collected via [social performance initiatives](#) with permission to be published. This can provide an interesting baseline, even though it won't match the extent of MFT's data.

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### **Does this mean the industry has failed at transparent pricing?**

By all standards, microfinance has accomplished unprecedented levels of transparent pricing. Remember that in most countries, true prices are not known for the commercial loan market, yet microfinance voluntarily published the much higher loan prices we charge on microloans. No other global industry ever created a central public location where their prices are transparent and can be compared.

By collecting a vast amount of transparent pricing data, MFT helped the industry learn an enormous amount about how pricing works in microfinance. We showed that it wasn't just consumers who were unable to evaluate and compare price; the majority of us in the industry were also baffled and confused. Our goal was to raise awareness inside the industry of the seriousness of the problem, and to create a path forward to more ethical practice. And in many ways we have accomplished the first half of that mission and it is now time to advance on the second.

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### **Transparent pricing doesn't obligate responsible pricing**

Against our hopes, MFT collecting and publishing transparent pricing has not led to wide-spread changes in pricing policies, nor to significant drops in pricing. Some MFIs have changed their prices to be more transparent (and often lower), but most have not. Pricing transparency (when not communicated to the consumer) has not created price competition.

If the industry cannot fully sustain this same level of transparency, our work is not a failure. We can now build on what we learned, and even advance by now developing methods of using an MFI's pricing data in our decision-making. Disappointingly, outside of a few countries and a small number of organizations, access to transparent pricing has not had a significant influence on institutional practice – we see infrequent changes in MFI pricing decisions, and we see limited influence on the way that funders and networks select their partners. That must change, and that can change.

There is one prominent example of an international network implementing widespread improvement in pricing policies – in the past 1-2 years, FINCA has dramatically changed their pricing in many affiliates, eliminating flat interest, eliminating compulsory deposits, making their price much more transparent, and also lowering their true price. We need more examples like this.

There is one notable country where prices have become much more transparent and responsible – India, following the 2009 crisis. The changes in India – eliminating flat interest and compulsory deposits, minimizing fees, and eliminating compulsory insurance – were the result of proactive regulation. Where country-wide microfinance markets have become more responsible, the evidence points strongly to this being the result of formal regulation rather than industry-based self-regulation. It seems that unless self-regulation has some teeth, it will find change to be limited in scope.

It is time for microfinance to shift the emphasis of its pricing work. Because though we've helped illuminate how pricing works in the industry, MFT's work has also demonstrated that [pricing competition does not happen](#) in large parts of the industry, even when this data is available. In contexts where prices are not affected by market pressures, it is meaningless to judge prices by comparison to other prices in the [same market](#). Instead, prices can and must be judged by what we have learned about pricing in these six years, and doing so does not require a full database of current prices in the market. For instance, we've seen clearly that an MFI doesn't have "[one price](#)"; a loan product doesn't even have "[one price](#)". Prices of responsible MFIs reflect the cost curve of delivering loans. And high profits come less from being efficient in a competitive market and more from pricing "off the curve", [taking advantage](#) of the confusing and opaque pricing environment many MFIs operate in.

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*In microfinance, market pressures don't result in lower prices; market pressures result in less transparent prices.*

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### Balanced Pricing - Where there is no will, there is no way

The industry will likely be taking a step back on (but hopefully not completely stopping) transparent pricing. But using what we have learned about pricing, the industry can and must now take a large step forward on the issue of balanced pricing. Though that seems like a contradiction or an impossibility, my position is: Transparent prices don't, by themselves, result in balanced pricing; only a commitment to balanced pricing results in balanced pricing.

And my question to the industry is: Are we willing to make that commitment?

### Leapfrogging Transparent Pricing and Advancing to Balanced Pricing

I see no means to sustain broad-based transparent pricing information, but thanks to having seven years of data, we now know enough about pricing that those in the industry willing to practice responsible pricing can now define and measure responsible pricing and use that information in their decision making:

- MFIs can evaluate adjust their pricing policies accordingly
- International networks can make it a requirement of membership
- Investors and Funders can make it a requirement of financing

These decisions can be made organization-by-organization. They don't require industry-wide cooperation and data gathering. These decisions can be made based on pricing information collected from an MFI and analyzed with objective criteria.

I propose here an approach to evaluate the degree to which an MFI is achieving balanced pricing. Balance means the MFI is not heavily centered on its own self-interest, nor is it operating heavily on the expectation that donors will fund operations. The MFI looks for solutions that achieve balance between the two sides of the business transaction — itself and the poor — rather than leave that ethical responsibility to the pressures that are assumed to eventually come from the market's invisible hand. A balanced business proactively and intentionally makes balanced policy decisions rather than waiting for the market to force it to do so.



There is an alternative proposal in the industry which solely compares an MFI's prices to current prices "in the market", but there are two problems with that approach:

Problem 1: A judgment requires access to true prices in the market (which the industry doesn't have for most countries)

Problem 2: The definition assumes that prices are set by market forces, not by MFI managers. Our pricing data shows conclusively that in most countries, this is not the case. Price competition from market forces requires consumers to know (and understand) the true prices of the loans for sale in the market. In most cases, neither is true. It is particularly absent on the very smallest micro-loans (the loan size MFTransparency defines as "where the price curve starts"). Thus, most MFIs are not pressured by market forces to lower their prices. Instead, lower prices come from: 1) internal management decisions, 2) pressures to do so from networks or funders associated with the MFI, or 3) government price caps.

MFT's Balanced Pricing Methodology is described in [this paper](#) and incorporated into this [Pricing Analysis Tool](#). MFT has shown conclusively that an MFI does not have a single price, nor does a loan product sold by the MFI have a single price. There is a range of prices that borrowers pay. To determine if an MFI is applying responsible pricing requires looking at that range of prices and evaluating what percentage of clients are paying something in the range of a reasonable price.

The Pricing Analysis Tool enables MFIs and other stakeholders to perform this assessment and use the judgment in their decision making. The data can be collected, and the data can be evaluated and judged without access to non-transparent information from other MFIs in the market. My hope and my challenge is that we can shift quickly to having the will, as well as having a way.

## OUR CLOSING WORDS

Our decision to close doesn't mean we shouldn't have taken on this task, or that our work failed. We had many successes, and we all have learned a tremendous amount about prices. MFTransparency did none of this alone; we coordinated an industry-wide movement.

The fact that you've read a report of more than 100 pages is indicative of your support and interest in this topic. We thank all of you for your support over the past years. Together we worked towards the organization's mission to be the leader in microfinance product pricing transparency by promoting public disclosure and education. Although much work remains, we see many examples of positive change. We see pricing a major topic of conversation in every conference, where before it was never discussed and rarely understood. We have examples of MFIs changing their pricing to make it more transparent. We have felt a part of the movement to recognize those MFIs committed to the hard decisions necessary to seek a price that balances the needs of their business with the needs of their clients.

Working together, we all accomplished more than expected, and to our knowledge we did more than any other industry to voluntarily practice pricing transparency. The task is not over. In fact, transparency and ethical practice are tasks that are never complete, but continual.

Microfinance practitioners and stakeholders are now aware of the importance of ethical and transparent pricing, and we now have the ability to help ensure that it becomes the industry standard. But true change comes not from knowledge but from action. Each and every stakeholder in microfinance has the ability to now take action to make fair pricing a reality. MFT has never been the solution to the problem; actions taken by each and every institution are the solution to the problem. So our parting advice for the industry boils down to three words: It's your turn.