

BY THOM KHANJE

A New York-based micro-finance expert has called for increased transparency on interest rates and charges levied by micro-finance institutions to help customers make informed decisions when taking loans.

Alexander Fiorillo, vice president of an international organisation called MicroFinance Transparency, said in Lilongwe on Tuesday that transparency among the micro-finance institutions could also earn them confidence among the public, government and donors.

She was speaking during a workshop held by MicroFinance Transparency in partnership with the Malawi Microfinance Institutions Network (MMFN) to sensitise local micro-lenders on the importance of transparency, especially to do with their charges.

Reserve Bank of Malawi governor Perks Ligoya has since described MicroFinance Transparency's objectives as consistent with Malawi government's policy on microfinance as stipulated in the recent Parliament-approved Microfinance Act.

Fiorillo said just like commercial banks which normally quote their loans using annual percentage rates, micro-finance lending institution should also use the same principle to help consumers make enlightened decisions regarding seemingly comparable loans, when in actuality one is significantly more expensive.

Expert calls for openness in micro-finance lending



FIORILLO – High profits generated off the poor can create a very bad public image

"For example, a quoted interest of 3 percent can result in an annual percentage rate between 36 and 96 percent and beyond," observed Fiorillo.

She said the true price of MFI

loan products has rarely been accurately reported. She said MFIs need to ensure that their clients have clear information about the cost of the money they borrow.

She said MFI have to be open about the reality of the industry which is that interest rates on micro-loans must be higher than interest rates on larger commercial loans because it was more expensive to provide smaller loans than larger ones.

"The smaller the micro-loan, the higher the interest rates necessary for the MFI to cover the cost of that loan in order to achieve sustainability. For example, a loan of K10,000 must carry a higher interest rate than a loan of K50,000," said Fiorillo.

She said however due to challenges of explaining why an MFI has to charge higher interest rates than commercial banks and to charge the highest interest rates to the poorest clients, the easier alternative has been to use pricing methods where the quoted price appears significantly lower than the actual price.

She said MFIs have found it difficult to convert to transparent pricing as doing so would make them appear to be the most expensive on the market, even though their true price could actually be the lowest.

Fiorillo said where MFIs are operating in a very secretive pricing environment; some institutions take advantage to charge a price that generates a

high short-term profit while doing harm to its clients.

"This is a bad situation for the poor and bad situation for the micro-finance industry. High profits generated off the poor can create a very bad public image for the industry and result in strong backlash," she said.

She advised the Malawi microfinance industry to start practicing transparent pricing for their long-term survival, growth and relevance in the financial industry.

Reserve Bank of Malawi governor Perks Ligoya, who officially opened the workshop, said Malawi had enacted the Microfinance Act to regulate MFI and protect borrowers from the institution from any malpractices in the industry.

He said effective yesterday [September 1], all MFIs will have to be licensed and regulated by the central bank following stringent measures that have been put in place to instil sanity in the industry.

"Malawi has opened a new chapter in microfinance. Although we will maintain a liberal interest rate regime for MFIs and the entire financial sector, we will sit back and watch poor borrowers being ripped off by lenders," said Ligoya.