

African Microfinance Pricing Transparency Leadership Forum Discussion Insights: Financial Education

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

Client financial education was one of three core themes discussed at the African Microfinance Pricing Transparency Leadership Forum. A roundtable discussion between Daniel Tallam of the Central Bank of Kenya, Lanjes Sinoya of the Reserve Bank of Malawi and Kobina Amoah of the Ministry of Finance and Economic Planning of Ghana, moderated by Bilha Maina of Financial Sector Deepening Kenya, provided substantive material that sparked the lively roundtable discussions that followed.

The following sections frame the discussion of client financial education that took place at the forum, and extract insights on some of the most complex questions raised about this cornerstone of transparency.

The Importance of Financial Education

There was broad agreement at the Forum agreed that client financial education is critical to facilitating transparency, building strong markets and ensuring that microfinance fulfills its social mission. Financial education arose in discussions of the other two core themes, indicating how fundamental this consideration is to all other industry building efforts. Financial education seemed to be of equal concern to participants as the role of pricing disclosure in institution financial sustainability but the question remained: who is responsible for providing financial education to clients?

In particular, participants agreed that educating clients about pricing is essential to any successful effort toward transparent pricing. Not only should clients be able to understand prices and how to make decisions between different products, they should also be educated on how to determine when to borrow and when not to borrow as well as how much. Participants felt it was important to educate clients on pricing as it pertains to the range of products offered by microfinance institutions, not just credit.

Financial education allows borrowers to make better financial decisions, but it can also help make borrowers more aware of their rights and the regulations protecting them. New client protection or pricing disclosure policy is more likely to be effective if the clients it is designed to benefit are aware and can demand the rights and information they are due.



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In addition, new pricing disclosure policy means more pricing information available to clients and may also mean confusion among borrowers who do not understand the information they now have access to. If a new policy requires institutions to publish the Effective Interest Rate (EIR) on all repayment schedules but borrowers do not know what EIR is, the policy is minimally effective. If clients raise questions that institutions are not equipped to answer, then those institutions risk losing the trust of their clients. In this sense, pricing disclosure policy and client financial education are mutually dependent approaches for strengthening the microfinance sector.

Implementing Financial Education Programs

While participants in the Forum agreed that financial education of clients is an important priority, they also agreed that it is a significant challenge. There are many difficulties involved with reaching clients who may be dispersed, located in remote rural areas, without access to communications technology, illiterate and relatively unfamiliar with formal financial services and products. Participants discussed several possible ways of reaching such clients with educational information about microloan pricing:

- **Seminars and Workshops:** The first financial education channel that most participants discussed was traditional, in-person classes or workshops. By working with borrowers directly in-person, the training programs can be tailored to meet individual needs. Questions and concerns arising about this approach included the applicability of a classroom-style approach; for uneducated and possibly illiterate clients, is this the most effective way of communicating information? Who would offer such programs and where would they take place? Who would pay for them?
- **Materials Distributed through MFI Offices:** Some discussions addressed the idea of disseminating financial education materials to clients in the form of brochures and posters at MFI offices. This could address the question of location, but many raised the issue of conflict of interest. Where is the line between advertising and education? Some felt that MFIs are best-placed to distribute this kind of information since it is really in their best interest to have educated borrowers.
- **Staff Help Desk:** Similar to the previous point, another idea raised was to set up a help desk at MFI branch offices that would be manned by staff members dedicated to explaining rights and responsibilities to borrowers as well as explaining credit product pricing structures and reviewing loan documentation disclosing pricing information. This consistent accessibility and hands on approach could help borrowers come to understand pricing terms thoroughly over time.
- **Trade Fairs:** Participants discussed the possibility of hosting trade fairs for the microfinance industry where clients could meet in person with institutions, financial education experts and other industry support organizations directly. This face to face interaction would avoid telecommunication and literacy issues, and likely ultimately achieve better results than remote communication. This could also be a venue for disseminating important pricing information to clients, providing institutions with an opportunity to market to their clients and bring together a large number of people at once for what might otherwise be time-consuming and expensive smaller training sessions.

- **Newspaper:** Printing information about the pricing of loans as well as educational material about how to use it to make better borrowing decisions could be distributed through newspapers, especially very local ones. However, many clients, especially in rural areas, do not subscribe to any newspaper. This also does not address the issue of literacy, which would make information distributed through a newspaper inaccessible to many clients. In addition, in some places very few if any newspapers are printed in local languages.
- **Radio Programs:** Similar to a training program that might be given in person, radio programs could take borrowers through the concepts of pricing and in general the process of borrowing. This approach is inexpensive, could reach a wide range of people, can be offered consistently over time and addresses the issues of literacy and language.
- **Youth Financial Education Programs:** Many participants agreed that in the long-run, developing youth financial education programs as part of the core curriculum of local schools is an important step toward creating more informed microfinance clients. This essential information should be taught by teachers as an additional core subject, starting from a relatively young age so that in adulthood otherwise financially excluded individuals have a strong understanding of formal financial products and services. This does not address the issue of current borrowers' education, but may be an effective policy measure to plan for future generations of borrowers.

In addition to distribution channels for client financial education programs, Forum participants agreed that client segmentation is important for developing effective education strategies. For example, in terms of pricing, farmers are likely to have different concerns than urban business owners, and clients at higher income levels are likely to face very different credit product options from those at the lower end of the spectrum.

Regardless of the mechanism chosen for delivering financial education programs to clients, participants agreed that extensive research and preparation is necessary, including initial needs assessments, pilot phases of new projects and ongoing evaluations of client satisfaction and overall impact of any given approach. In particular, regulators and policymakers in attendance felt that they required baseline research to better understand financial education levels before moving forward with designing programs. Delegates from Ethiopia, Malawi, South Africa, Tanzania and Zambia all shared their experiences with conducting such research, prompting the suggestion that regional collaboration on the issue of financial education could potentially be a highly effective approach.

Finally, it is important to note that the emphasis for financial education should be on clear and simple products with clear and simple prices and built-in mechanisms to ensure clients understand what is being offered (e.g., in the loan contract, loan officer procedures manual). It is important to distinguish between different types of financial education. One approach is financial education around client protection principles – the rights and responsibilities of clients and institutions. This type of financial education may be more of a regulatory or industry responsibility. There is also education around financial capability (savings, planning, managing debt, negotiation), and being able to make sound decisions regarding financial products and services. The providers of this type of financial education may be different. Finally, clients should also receive education including clarifications and clear explanations of particular products and services (i.e., marketing). Given the potential breadth of financial education



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offerings, the interests and responsibilities of policymakers and regulators should be more narrowly defined.

Stakeholder Roles and Responsibilities

Perhaps equally difficult as determining what approach to take to client financial education is the question of whose responsibility it is to require, disseminate and fund such programs. Particularly in the context of discussing pricing disclosure policy, and thereby making new information available to borrowers, Forum participants found it important to define roles and responsibilities of different industry stakeholder groups to avoid duplicating efforts and to ensure positive outcomes.

Forum participants discussed potential roles for the following stakeholder groups in terms of facilitating client financial education about pricing:

- **Policymakers and regulators:** In implementing pricing disclosure policy, should policymakers and regulators also require certain standards for client education? Organize and oversee client financial education programs? Fund such programs? Most participants agreed that policymakers should encourage such programs and monitor needs in this area, possibly also partnering with other industry stakeholders to implement programs, but should not be directly or solely responsible for educating clients. Many participants suggested that the role of regulators in financial education be more focused on the *rights and responsibilities* of clients and institutions when engaging in financial service exchanges. This type of financial education relates more to the consumer protection angle and less to the financial accounting or business management financial education offered by some programs.

Questions also arose about the fundamental role of policymakers and regulators in pricing transparency in terms of responsibility to the clients. Is it the role of policymakers and regulators to make pricing information available, or should they also be responsible for making sure it reaches clients? That clients understand it? This discussion raised important philosophical questions about to what level the reach of the regulatory authority should go.

- **Financial Institutions:** Some financial institutions provide some level of client education already, from the minimum amount necessary to ensure that clients understand their obligations as borrowers to more in-depth training programs offered to clients as a separate product or as a requirement for joining the institution. Most agreed that financial institutions should be a channel for disseminating some educational materials or trainings, but are not well-positioned to deliver the full scope of what is needed because a) it is typically too expensive for them to offer, and b) may represent a conflict of interest, where institutions may lean training programs more towards advertising than education.
- **Industry Support Organizations:** In many discussions at the Forum, the idea that industry support organizations such as networks, consumer protection agencies or targeted NGOs might do well with the responsibility of educating clients was raised. Networks could potentially partner with organizations dedicated specifically to client financial education to develop materials that would work in the local market context, as well as serve as a hub for hosting

trainings and courses on behalf of their MFI membership. Many participants felt that this is exactly the type of role to be played by third party industry support organizations that do not have any conflict of interest but do know the local market intimately, and have as their core mission to handle tasks such as this which do not fall clearly under the core mandate of any other industry stakeholder groups.

- **Donors:** Many participants agreed that financial education programs should be funded by donors. As they tend to be expensive and highly experimental, financial education programs should not divert often scarce resources away from regulators or MFIs. Whereas investors should typically remain focused on funding MFIs' core operations, financial education might be an appropriate area for donors to fund as it is critical to the success of the industry but is not typically as obvious a business or profit opportunity.

One particularly innovative idea for who the responsibility of client financial education should fall to came from a representative of the Reserve Bank of Malawi (RBM). The idea proposed was to set up a separate agency within the RBM that would focus exclusively on consumer protection and market conduct, including financial education. This agency would then work with the local network on a number of issues, including reporting and capacity building. Such an agency would then have the backing of the regulator, the on-the-ground knowledge of the network and the clear mandate of addressing client-centric issues. As client financial education is a unique challenge for an industry where most clients are otherwise financially excluded and minimally educated, this type of innovative thinking might be the only way to effectively address the client component of transparent pricing.

Next Steps

The discussion of client financial education at the African Microfinance Pricing Transparency Leadership Forum suggests that there are still many questions to answer before determining the best approach to client financial education. One group of participants discussed an interesting philosophical quandary. Discussions of pricing disclosure policy imply that institutions should be required to disclose as much information about pricing as possible. Discussions about client financial education suggest that clients are more likely to understand information the simpler it is. Does this imply that pricing disclosure and financial education are fundamentally at odds? Are we facing a tradeoff between disclosing detailed pricing information so we have "transparent" markets *or* disclosing information that clients will actually understand?

MFTransparency's answer to this is that in order to practice responsible microfinance clients must have the information they need to make informed decisions about the cost of borrowing, both the information they understand and the information they do not understand *yet*. Clients will never understand information that isn't shared with them. Perhaps the first step toward client financial education then is simply *transparency*. Rather than deciding for them what is too complex, if the industry gives clients the tools they need they will demonstrate what they are capable of. So, prior to



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designing and implementing full-scale financial education programs and mechanisms, we should simplify the terms of financial products and make contract language clear and straightforward.



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