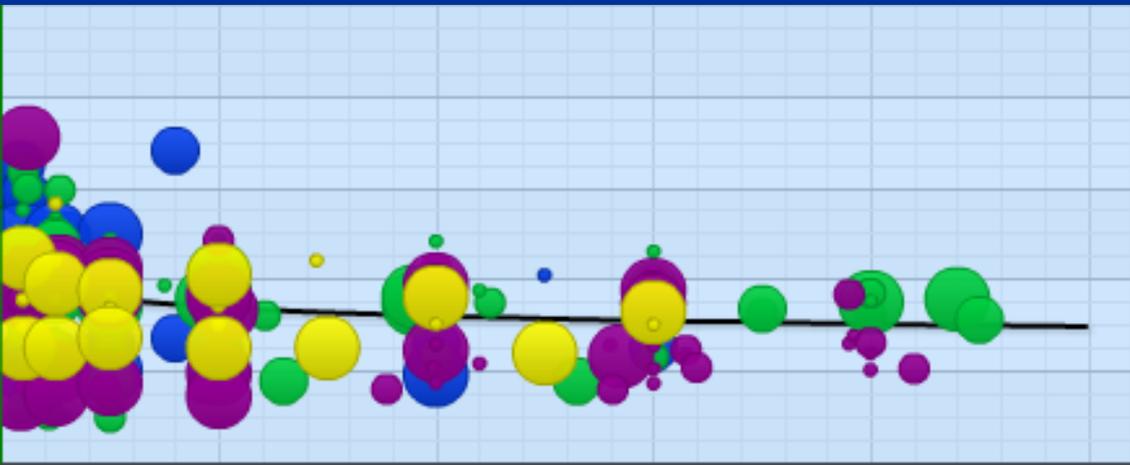


Responsible Microfinance: The Need for Self-Regulating the Practice

MicroFinance Transparency
Sa-Dhan Conference
Delhi, India
March 2010



Responsible Microfinance

- What is it?
- How do we define it?
- How do we practice it?

- We are in new territory!
 - Microfinance is a rare industry with 100% of clients at bottom of the pyramid.
- The industry is in this important and intriguing dialogue process now

The need for self-regulation

- Do we need external regulation?
 - Appropriate regulation is essential to a well-functioning market
 - Regulation reduces risks and market volatility
- Do we also “need” self-regulation?
 - Going beyond the minimum legal requirements helps distinguish responsible practice from ordinary practice

We choose responsible practice

- Self-regulation is a visible demonstration of our practice of ethics
- Industry-wide self-regulation can build bonds in the industry
- India microfinance has made progress in:
 - Developing Codes of Ethics
 - Measuring Social Performance (double bottom line)
 - Commitment to Pricing Transparency

A Significant Obligation

- Our clients are the very poor
- We hold the power, with power comes responsibility
 - Micro-credit is not an exchange negotiated between equal parties
- The temptation of large profits can lead some to irresponsible practice
- Irresponsible practice leads to client abuse
- Our obligation is to self-regulate the industry and promote responsible practice

The Role of *MFTransparency* in facilitating transparent pricing

MF*Transparency* Launched at the Microcredit Summit in Bali July 2008



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Transparent Pricing

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

Truth-in-Lending Practice

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

Who Benefits from Pricing Transparency?

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

Who Benefits from Pricing Transparency?

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

Value of Pricing Transparency

“Transparency is the root of every healthy industry. It is fundamental to good business practices.”

Asad Mahmood, Deutsche Bank

“Financial services are just that - a service. And they should therefore serve the people. Transparent and full disclosure of the real price is an integral part of providing the service in a fair and ethical manner.”

Maria Sara Jijon, WAM/Ecuador

Responsibility to Customers

“MFTransparency aims at giving MFIs information to offer better value to customers.... We applaud the effort.”

Elizabeth Littlefield, CEO, CGAP

“It is our duty to clearly communicate true prices to our clients. MFTransparency is taking this very important initiative in the world of microcredit.”

Muhammad Yunus, Grameen Bank

The true price is the alphabet!

"Communicating the true price of a loan is so critical. How can you say you are teaching financial literacy to your clients while withholding the alphabet from them?"

Howard Finkelstein, lawyer, New York

Value of Pricing Transparency

“Transparent and consistent pricing ensures that clients can compare the effective interest rate 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”

Robert Annibale, Citibank

*MF*Transparency Works with all Industry Stakeholders

MFIs

Networks,
Associations, Industry
Initiatives, Rating
Agencies

***MF*Transparency**

Regulators, Supervisory
Bodies, Consumer
Protection Agencies

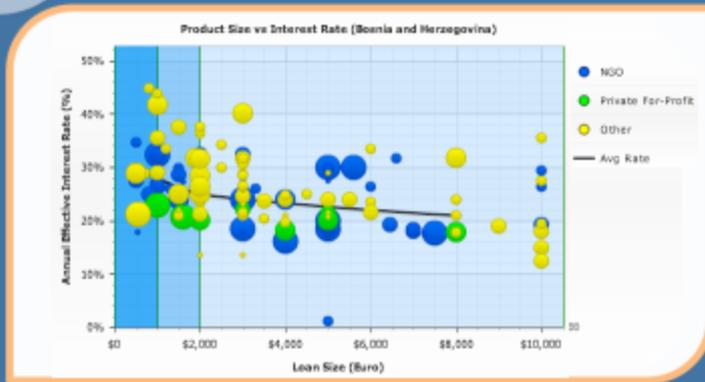
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How to achieve Responsible Finance?

MFTransparency's Business Model

1. **Data Collection & Dissemination:** *MFTransparency* collects product prices and information to display on its website to facilitate a more transparent market.
2. **Consulting on Legislation & Regulation:** *MFTransparency* provides recommendations to central banks and regulatory authorities around consumer protection and pricing transparency
3. **Technical Assistance & Training to Service Providers:** *MFTransparency* provides technical training to MFIs, rating agencies, industry initiatives, and other organizations to improve practices and create standardized practices in the industry
4. **Consumer awareness, education and “financial capability”:** Provide training materials and resources to improve client consumer literacy

DATA LAUNCH



Data Launch

Cambodia data now available!

[View Country Data](#)



Data Launch



Video: Why



Video: If Not



Video: What is

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Our Purpose

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

Featured Item: [APR Calculation Tool](#)

Gandhi's Seven Deadly Social Sins

1. Politics without principle
2. Wealth without work
3. Commerce without morality
4. Pleasure without conscience
5. Education without character
6. Science without humanity
7. Worship without sacrifice

These principles are the foundation of
“Responsibility”



Promoting Transparent Pricing in the Microfinance Industry

