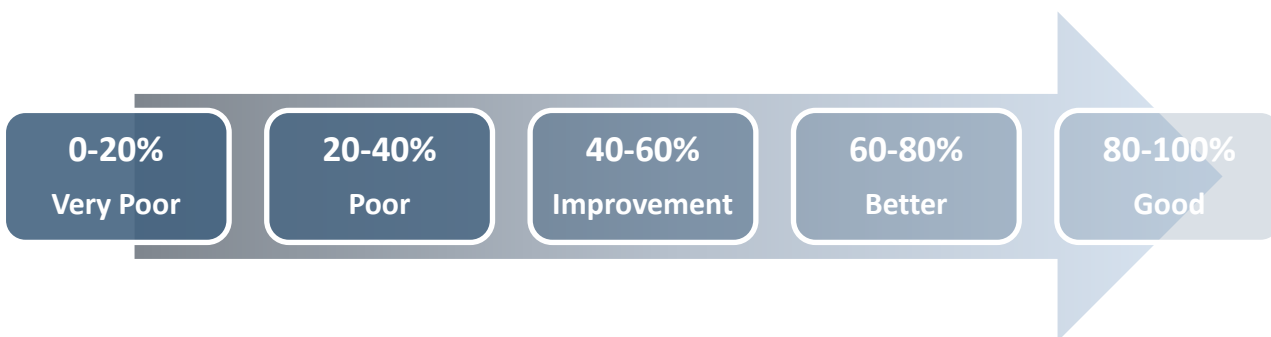


The Pricing Transparency Index

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.

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

Loan Sample Level: As above, nominal interest rate as percentage of the full price of the loan paid by the borrower. Calculated using a real loan delivered to a borrower.

Product Level: The average index rating of three to six loan samples in a range of representative disbursement sizes and loan durations.

Institution Level: The average index rating of an institution's microloan products, weighted by borrower number.

Country Level: The average index rating of all microloan products in that country from institutions who participated in the Transparent Pricing Initiative, weighted by number borrowers in each institution.

For MFIs: How can I improve my Pricing Transparency Index?

To improve a transparency index rating the institution must become more transparent in the communication to borrowers about the prices they pay for their loans.

Steps to consider include:

- Quote interest rate using the declining balance rather than flat interest rate calculation method. For more information please [click here](#).
- Avoid the use of hidden fees or complex fee structures. These are confusing for the borrower and result in loans being presented to the borrower as deceptively inexpensive.
- Consider the suitability of compulsory deposits tied to this loan product and ensure that their impact on loan price is presented to the borrower.
- Quote full prices to the borrower using APR, including the cost of all fees, all insurance charges, all taxes paid by the borrower and all compulsory deposits.
- For more information regarding this please [contact us](#).

For Industry Stakeholders: How can I use the Pricing Transparency Index?

The Pricing Transparency Index informs whether borrowers are being accurately communicated with. It can be used by industry stakeholders for a variety of purposes:

| | |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Microfinance Providers: | The Index highlights if you need to improve your pricing practices to ensure your clients are receiving accurate information. |
| Regulators: | In this way the Index can be used to help strengthen your microfinance industry and ensure consumers are protected. |
| Investors & Donors: | The Index highlights those institutions that adhere to international standards of best. |
| Borrowers: | The Index provides a metric that can be used to compare the competition and make an informed choice on your loan. |
| Industry Support: | The Index highlights those institutions that promote responsible microfinance, social performance and consumer protection. Ensure your partners work towards improving their pricing transparency. |

MF*Transparency* is promoting price transparency by educating stakeholders, promoting standards for disclosure and by publishing the true costs of microfinance products in a clear, consistent fashion. To learn more please visit www.mftransparency.org or contact us at info@mftransparency.org.