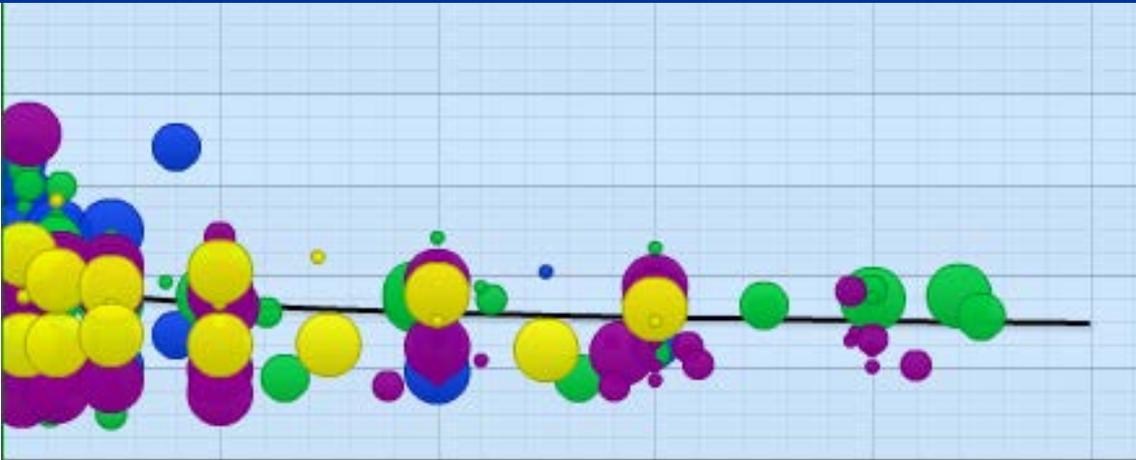


# Standards for Responsible Finance

Nairobi  
October 2011



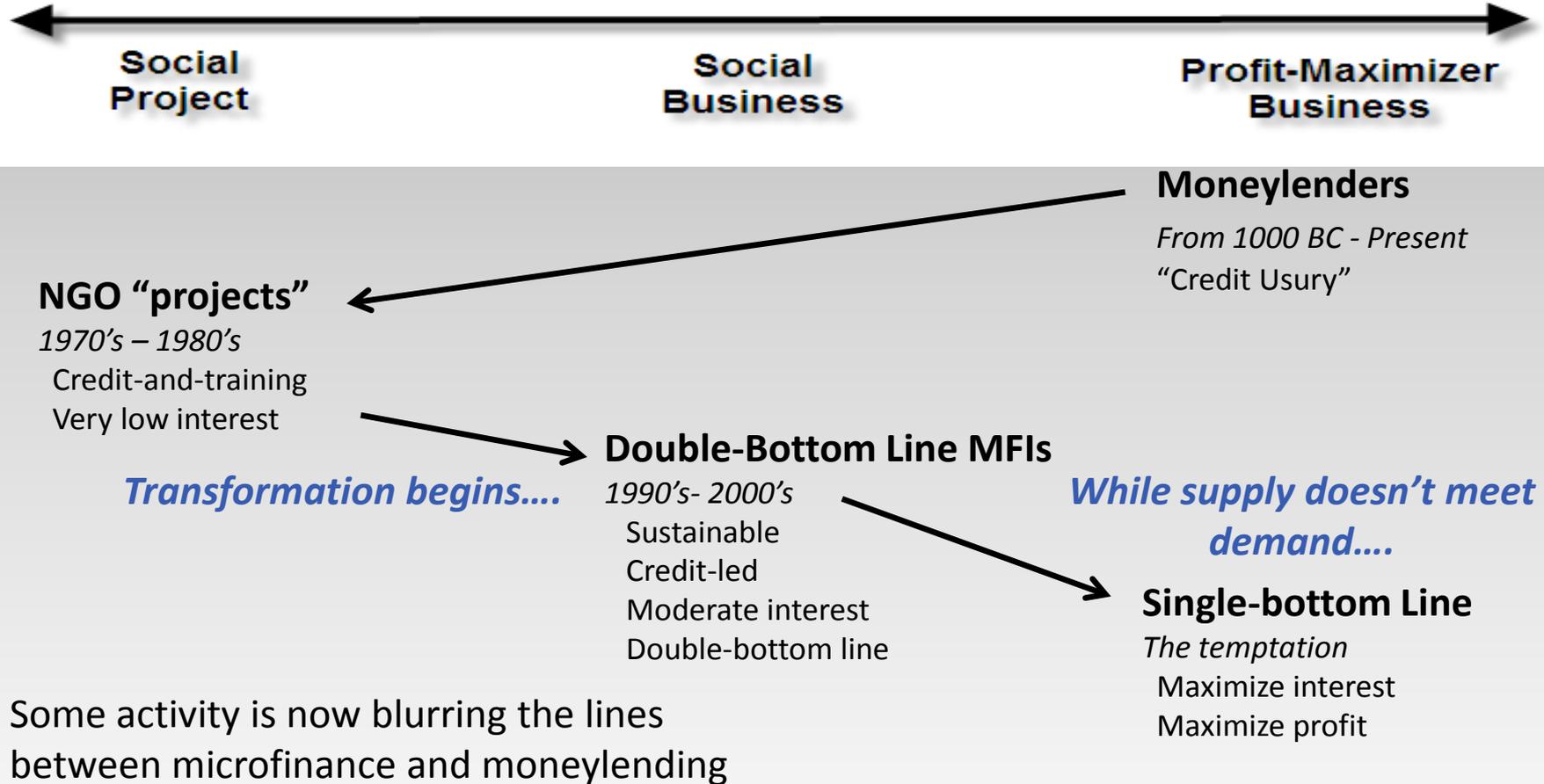
# Responsible Finance: Two foundational questions

**How?**

**Why?**

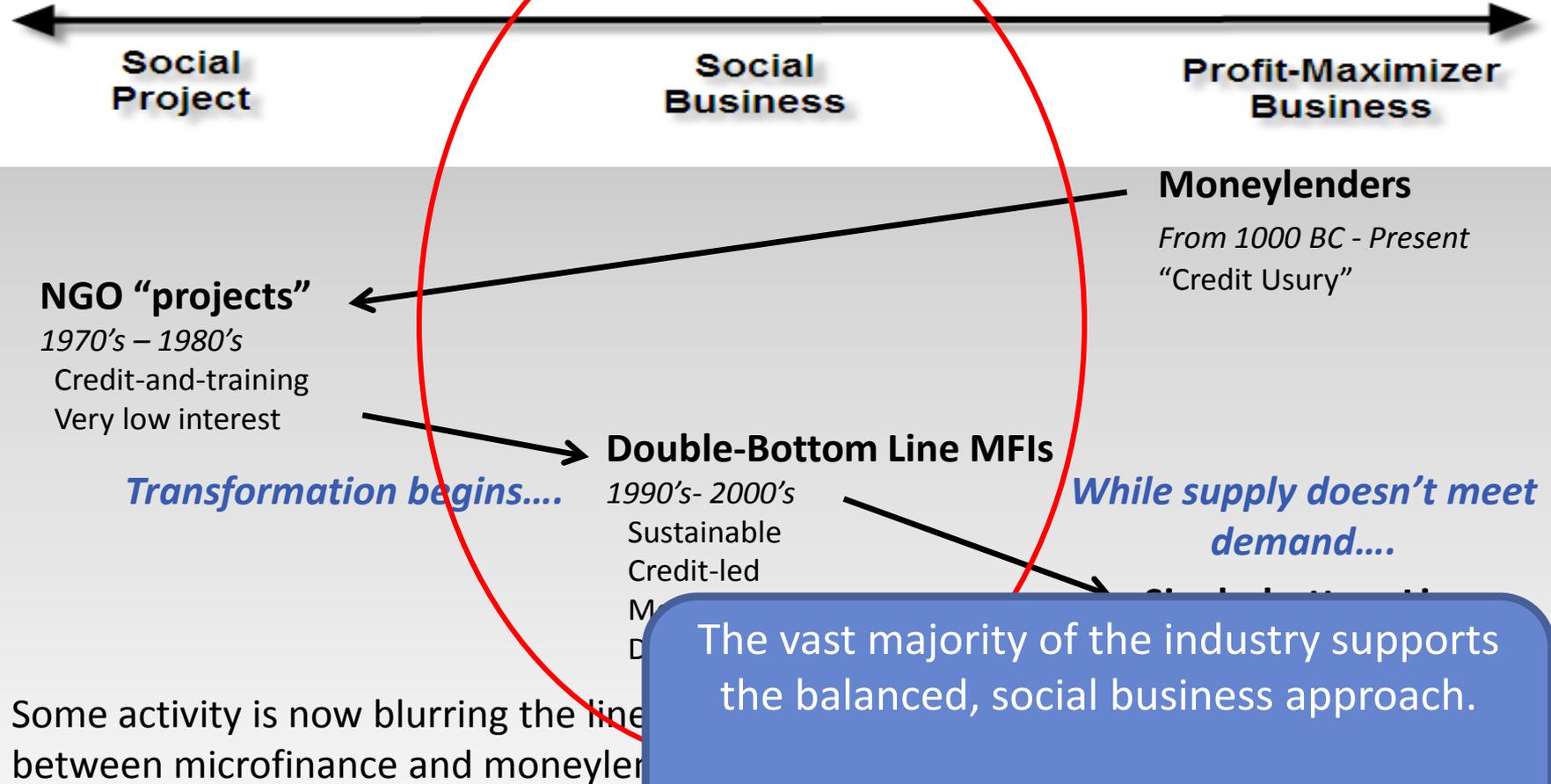
# Financial Services for the Poor

## 3000 Years on One Slide



# Financial Services for the Poor

## 3000 Years on One Slide



The vast majority of the industry supports the balanced, social business approach. We are actively working to maintain his balance.

# Innovations and Mission Drift

1. 1462: Franciscans in Italy set up interest-free loans to the poor, using collateral goods
2. They were called “**Funds of Mercy**”
3. This innovation to assist the poor spread throughout the world – as **pawnshops**
4. 500 years later, we start microfinance as a way to get loans to the poor.
5. **Our responsibility is to protect microfinance from following this same path.**

# The Challenge of Public-traded for-profits

“A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end.”

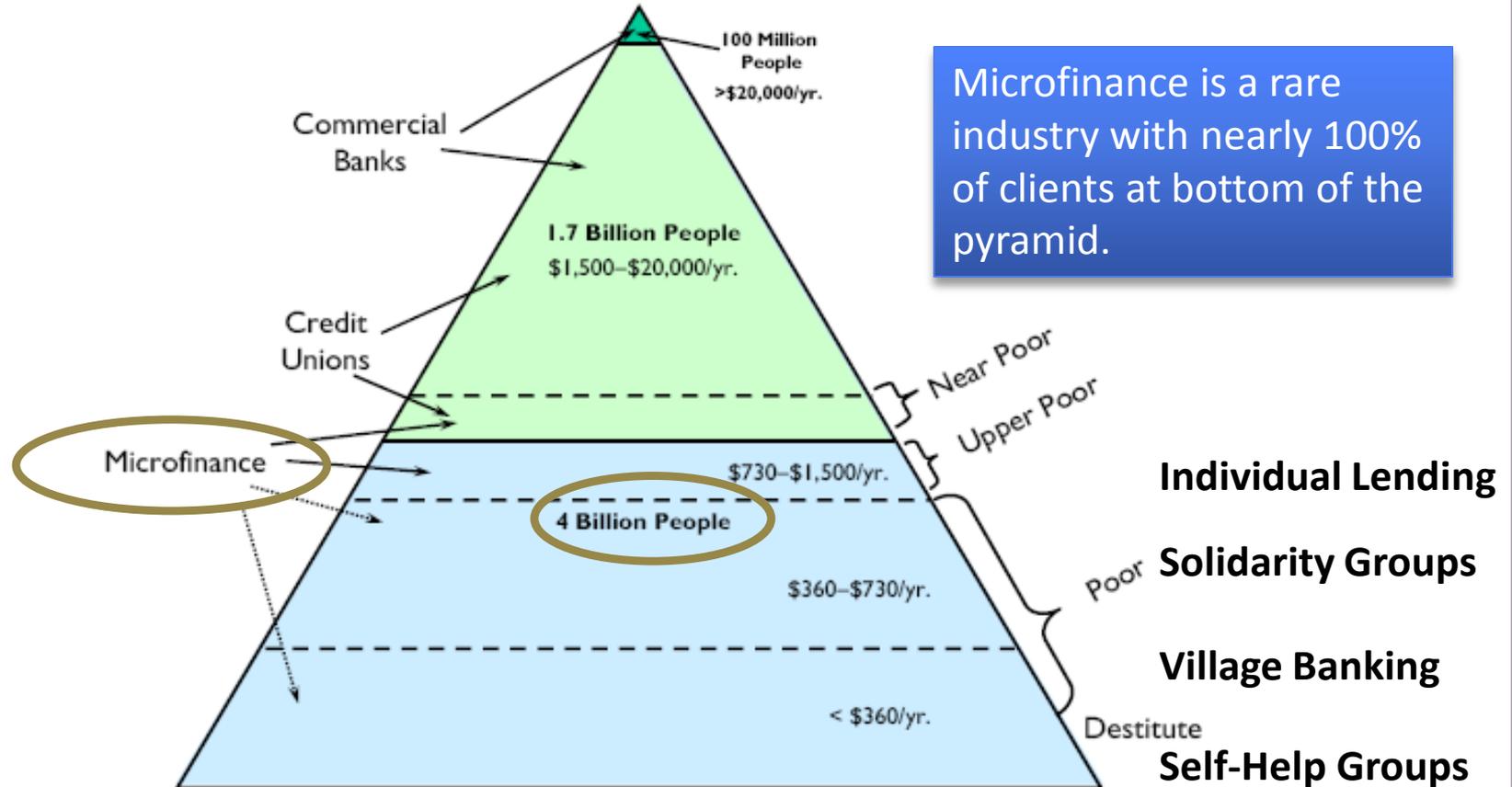
US Supreme Court

“The social responsibility of business [is] to increase its profits”

*Milton Freidman*

# The Income Distribution Pyramid

## Microfinance Can Reach the Lower Income Levels



\*Sources: VISA International, World Bank, C.K. Pralahad

# First reference to the “Bottom of the Pyramid”

“These unhappy times call for the building of plans:

- that rest upon the forgotten... but indispensable units of economic power...
- that build from the bottom up and not from the top down,
- that put their faith once more in the forgotten man at the **bottom of the economic pyramid.**”

President Franklin D. Roosevelt, 1932

2011 – We are once again in the midst of unhappy times, again brought on by irresponsible financial practice. It is time to build new plans.

# Responsible Behavior is an Obligation

1. Our clients are the very poor
2. We hold power, with power comes responsibility
  - Micro-credit is not an exchange negotiated between equal parties
3. The temptation of large profits can lead some to irresponsible practice
4. Irresponsible practice leads to client abuse

# Responsible Behavior is an Obligation

## THEREFORE

1. The obligation of stakeholders inside microfinance is to self-regulate the industry and promote responsible practice
2. We need regulators to assist us with formal regulation that helps the balance the power
3. Doing so protects both the poor and the industry

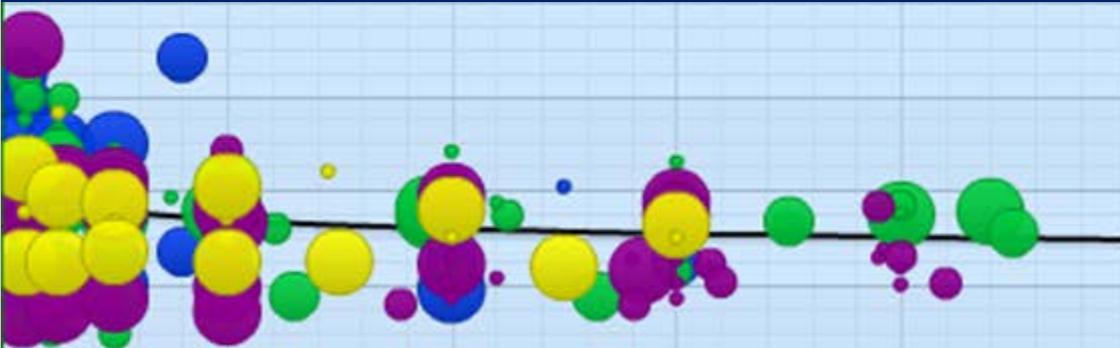
# Gandhi's Seven Deadly Social Sins

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





# We choose responsible practice

1. Self-regulation is a visible demonstration of our practice of ethics
2. Industry-wide self-regulation is building strong bonds in the industry
3. We have made rapid progress in:
  - Developing Codes of Ethics
  - Measuring Social Performance (double bottom line)
  - Commitment to Pricing Transparency

# Who Benefits from Pricing Transparency?

## 1. 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

## 2. MFIs

- They learn what the market price is, where they stand, and can take steps to refine their pricing strategy

## 3. Industry

- MF sector gets a database from which it can take up issues with policy makers

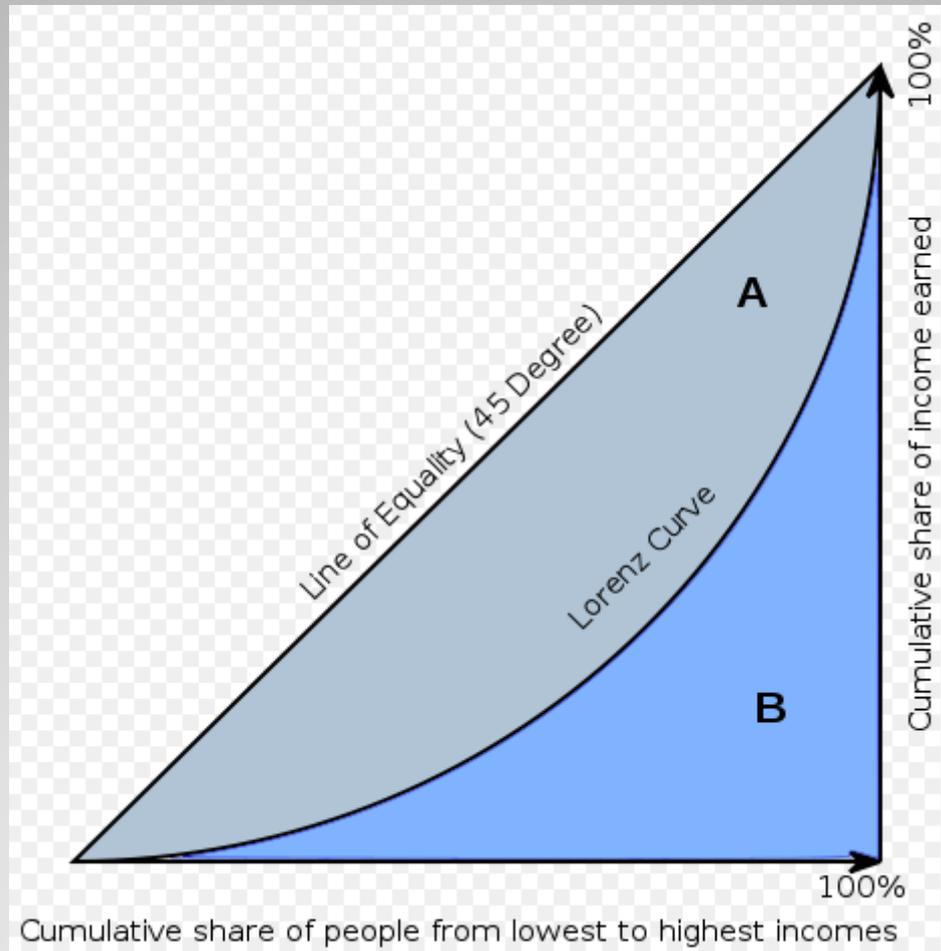
# Who Benefits from Pricing Transparency?

## 1. Funders and donors:

- They know what their client MFIs charge their customers, and can choose their partners accordingly

## 2. Regulators

- Observe the prices prevailing in the market, sharpening their ability to intervene specifically and refine policy



# MFT Proposed Definition

Transparent pricing means the different obligated charges associated with the loan are combined and converted into a standardized measure that can be used by the client to compare the unit financial cost of different loan products under consideration, as is done with APR and EIR measures. TCC is a valuable secondary measure, but should not displace APR or EIR.

This price indicator should be incorporated into the contract, and the accompanying repayment schedule should show all the costs and the cash flow the client will see during the loan.

# Transparency for a Healthy Microfinance Industry

## Policy / Regulation

**Regulators**

75 Countries

Analytical  
Publications

**MFI Industry**

5,000 MFIs

Conferences and  
Educational Materials

**Public and Press**

**Consumers**

100 million

**Pricing Data**

**Website**

**Education**

Effective policy requires building a strong foundation at the Bottom of the Pyramid --

Pricing Transparency and education of all stakeholders creates an enabling

environment for a healthy microfinance industry

# The need for self-regulation

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