



Keeping clients first
in microfinance



Putting Transparency into Practice: Communicating About Pricing

Transparency

When clients have complete information about product options, they are equipped to decide which products are best for them and to accept the consequences of their decisions. Transparency encourages open communication and a supportive relationship between providers and clients.

To meet this principle, financial service providers will communicate clear, sufficient, and timely information in a manner that clients can understand. **Specifically, providers will offer:**

- **Disclosure**—The following information is disclosed to the client, prior to sale: A) Prices, terms and conditions of all financial products,¹ B) Annualized interest rate (APR) or effective interest rate (EIR) calculation formulae, as determined by truth-in-lending laws,² C) An amortization schedule,³ and C) Debt collections practices.
- **Staff training**—Staff are trained to communicate effectively with all customers, ensuring that they understand the product, contract terms, and their rights and obligations. Communications techniques address literacy limitations and make use of the language(s) understood by clients.
- **Variety of disclosure mechanisms**—Providers use multiple channels for disclosing product information, such as brochures, orientation sessions, posting information in the branch, etc.
- **Adequate time for client review**—Clients are given sufficient time to examine the terms and conditions of the product and have an opportunity to ask questions prior to signing contracts.
- **Accurate and timely account information**—Clients regularly receive clear and accurate information regarding their accounts (e.g., account statements, receipts, balance inquiries).

Resources for Communicating About Interest Rates

Of the elements listed above, perhaps the greatest challenge for most institutions is **providing complete cost information to clients**. Financial service providers must inform clients about the total cost of credit (TCC), which means providing an amortization schedule that details dates and amounts due for principle, interest, taxes, fees and commissions; total interest charged over the life of the loan; and total payments on fees, commissions, penalties, and compulsory products.

It is highly desirable for MFIs to provide the APR or EIR equivalent on the repayment schedule to clients. In addition to promoting transparency across the sector, using a standardized calculation allows clients to compare loans from multiple institutions. This price comparison allows clients to determine

1 Including interest charges, insurance premiums, required security deposits or guarantee funds, minimum balances, all fees, penalties, linked products, third-party fees, and whether those can change over time.

2 If no such laws exist, financial service providers are still encouraged to use APR or EIR calculations, and make them available to clients. At minimum, providers must provide information that shows the total amount that the client pays for the product.

3 The schedule should separate principal, interest, service charges, insurance premium fees; define the amount, number and due dates of installment payments; and include fees and conditions for early repayment, late payments and default and security deposits/guarantee funds required during repayment period.

which product best suits their needs by taking into account not only *charges* but also *cash flow* during the loan term. In many countries, providers are required to provide the APR or EIR.

A number of **tools and resources** are available to help providers inform clients about pricing:

- [Calculating Transparent Prices Tool](#)—This Excel-based tool allows users to calculate what is charged on a given loan. Users input different loan terms to see how they affect APR and EIR, total cost of credit, cash flow, and repayment schedule. Using an interactive approach, this tool helps illustrate the abstract, often confusing concepts underlying APR and EIR. Offered by [MFTransparency](#).
- [Transparent Pricing in Microfinance](#)—This presentation explains the difficulties clients face when choosing between different loan products, as well as the downward spiral toward non-transparent pricing in the industry. It is a good companion to the Excel-based “Calculating Transparent Prices” tool (above). Offered by [MFTransparency](#).
- [Understanding APR Calculations](#)—This paper provides a step-by-step overview of the process of calculating an APR, including the concepts behind each step. Offered by [MFTransparency](#).
- [SmartNote on Transparent & Responsible Pricing](#)—This “mini” case study on Mi-Bospo (Bosnia) describes how the MFI ensures transparency by verbally reviewing loan contracts with clients and testing their understanding of the terms and conditions. Offered by [the Smart Campaign](#).
- [Example plain-language loan contract](#)—This loan contract, provided by JSO Microfinance Crystal (Georgia), is a “good practice” example of a loan contract that uses clear and simple language. Offered by [the Smart Campaign](#).

The Role of MicroFinance Transparency (MFTransparency)

[MFTransparency](#) plays a key role in helping financial service providers become more transparent. In addition to developing the above-mentioned tools to calculate the total cost of credit, it offers a forum for pricing disclosure.

[MFTransparency](#) collects information on credit products and their prices from all participating providers in a country, and organizes these graphically and in data tables, using standardized calculations that permit direct comparisons. Viewing data by country allows users to see the products and prices of all MFIs that voluntarily shared this information with [MFTransparency](#), and how these prices compare with one another. The data include repayment schedules for each product that MFIs offer and a calculation of the prices of those products in APR and EIR terms. Additionally, the pricing information of each product is presented in graphical forms that demonstrate the relationship between loan size and interest rate in that specific market.

[MFTransparency](#) also works with policymakers, regulators, rating agencies, donors, and investors to develop standard practices for pricing disclosure and further understanding of the prices paid by microfinance clients.

The Smart Campaign & MFTransparency

The Smart Campaign and [MFTransparency](#) are complementary efforts to increase transparency in the microfinance industry and institutionalize strong client protection practices in the sector. While the Smart Campaign advances [the Client Protection Principles](#), [MFTransparency](#) specializes in deep technical knowledge of one of those principles, “transparency,” and supports analysis of a second, “responsible pricing.” The Smart Campaign endorses the work of [MFTransparency](#) and promotes the use of their resources and expertise.

The Smart Campaign encourages all financial service providers—in particular those that have [endorsed the Smart Campaign](#)—to engage with [MFTransparency](#) in the following ways:

1. **Endorse MFTransparency**—sign the [MFTransparency endorsement statement](#), committing to transparency in pricing and education of microfinance stakeholders.

2. **Participate in country operations**—financial service providers can actively participate by submitting their data when *MFTransparency* launches the initiative [in their country](#), and by sharing the information with their clients. *MFTransparency* works with government agencies, networks, associations, donors, investors, academics and other stakeholders in every project country and always welcomes new partnerships.
3. **Partner to develop or distribute educational materials**—*MFTransparency* develops and distributes educational resources covering a range of topics related to transparent pricing. These materials are all available free of charge through the *MFTransparency* website. Review the papers, tools and presentations published there to learn more. Share them with others in the industry and then contribute to the growing dialogue on responsible pricing.

Visit the Smart Campaign & *MFTransparency* websites for more tools and resources on Transparency: www.smartcampaign.org and www.mftransparency.org.