



Microfinance Reporting Standards Initiative

An industry effort for all stakeholders:
What is it, why is it needed & what's next?

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Reporting Standards Defined

Technical standard: an established norm or requirement; usually a formal document that establishes uniform technical criteria, methods, processes & practices.

Reporting Standards: a single set of **high quality, understandable global accounting guidelines** that require **transparent and comparable information** in general purpose financial and operational statements for microfinance institutions.

Accounting & Financial Reporting Standards

International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)

Led by the IAS Board (Technical Committees) and the Foundation – international stakeholder representation; informed, transparent processes of standard development, updates, dissemination & education.



MFI Standards History

1990s - CGAP ratios; the SEEP “Blue Book”

2003 - The SEEP Network organized initial efforts for the industry to come together

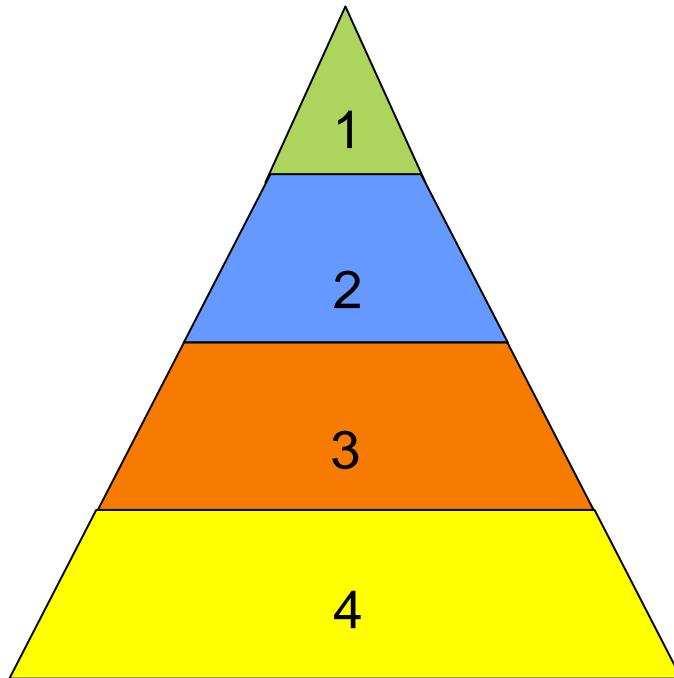
2005 - Publication of Consensus Guidelines (CGAP) and the “Framework” (SEEP and Alternative Credit)

2007 - SEEP Network members identify this as a Top 3 issue for industry attention

Evolution of the sector

- Origins in NGO sector
- Proven profitability, scale and business model
- Increasing commercialization (transformation of NGOs and banking sector targeting the small & micro sector)
- Increasing professionalization of the sector

Breakdown of Specialized MFIs



Tier 1: Mature, well known MFIs with strong financial and operational track records. Most are regulated. *At most 2% of all MFIs; the "Top 50 or 100"*

Tier 2: Successful but smaller, younger, or simply less well known MFIs. At or near profitability. Mostly NGOs; consider conversion. Majority will progress up. *8% of all MFIs.*

Tier 3: Approaching profitability. Understandable shortcomings due to young organization, lack of capital, weak MIS, or other needs. Nearly all NGOs. Some will progress up. *20% of all MFIs.*

Tier 4: Mix of unprofitable MFIs: start-ups, post-conflict settings, weak institutions or microfinance is not focus. Some will progress up. *70% of all MFIs.*

Microfinance Reporting Challenges

- Weak accounting capacity; becoming more professionalized.
- Weak MIS systems & systems management.
- Multiple reporting requirements. Every donor wants a different report; each investor needs additional -sometimes different- information.
- Central banks are increasingly understanding the sector, issuing legislation and prudential regulations.
- National accounting standards remain diverse – increasing convergence with IAS & IFRS.
- Audit firms are still new to the sector – especially risks, special audit procedures, and issues. (External Audit Guide 1998, available at www.cgap.org.)



Microfinance Reporting Challenges (cont)

Current Initiatives: CGAP Transparency Award

- Program to encourage transparent, clear reporting in MFIs.
- 231 MFIs in 62 countries entered in 2007, highest number to date. Unprecedented number of MFIs (83) received merit recognition.
- More and more, institutions take financial transparency seriously, complying with international, industry reporting guidelines.
- Current IFRS and IAS updates to the guidelines are underway.

Steve Wardle (Grameen Foundation)

Microfinance Reporting Challenge – a Framework update

2005 Framework addresses:

- Primarily credit organizations
- Some liquidity analysis
- Some alignment with IFRS and IAS

Gaps:

- A Reporting Standards maintenance process and body to address this function
- Capital Adequacy ratios; Savings ratios
- Financial services beyond credit (e.g. remittances, agent fees for other financial services)

Microfinance Reporting Solutions – A Framework update

2005 Framework update

- Capital Adequacy ratios
- Savings ratios

Issues and process

Blaine Stephens (MIX)

Microfinance Reporting Solutions - MIX

- Non profit, founded 2002, to support microfinance sector through information exchange
- Over 1,400 MFIs reporting annually to public platform
- Increasing number of MFIs aligning reporting to IFRS (regulated entities, MFIs with cross-border investors)
- MIX moved to IFRS alignment through SEEP Framework compliance
- Adopted XBRL (eXtensible Business Reporting Language) and IFRS 2009 taxonomy to provide suitable technology framework to support shift to IFRS reported financial statements
- So what is XBRL, how do we use it now, and what impact on future reporting?

Microfinance Reporting Solutions - MIX

XBRL IFRS 2009 Taxonomy

MIX MF taxonomy extension

	2004	2005	2006	2007	2008
As of date	2004-12-31	2005-12-31	2006-12-31	2007-12-31	2008-12-31
Assets (in USD)	84,108,846	123,871,080	223,202,295	473,053,345	692,877,455
Cash and cash equivalents (in USD)	13,319,380	17,446,118	52,073,000	142,264,315	205,018,321
Trade and other receivables (in USD)	1,716,511	2,218,839	4,632,845	6,198,293	9,832,206
Financial assets at fair value through profit or loss (in USD)	–	–	–	–	–
Financial assets available for sale (in USD)	123,551	–	–	–	–
Held-to-maturity investments (in USD)	–	–	–	–	–
Loan portfolio (in USD)	64,932,486	98,460,298	156,570,764	310,681,263	457,422,134
Loan portfolio, gross (in USD)	65,981,228	99,994,807	158,463,941	315,073,995	464,477,809
Impairment loss allowance (in USD)	1,048,742	1,534,509	1,893,177	3,205,756	5,166,105
Unearned income and discount (in USD)	–	–	–	1,186,976	1,889,570
Finance lease (in USD)	–	–	–	–	–
Current tax assets (in USD)	–	–	–	–	–
Deferred tax assets (in USD)	–	–	–	0	120,081
Inventories (in USD)	–	–	–	–	–
Intangible assets other than goodwill (in USD)	595,400	646,030	1,159,183	1,691,255	2,585,242
Property, plant and equipment (in USD)	3,415,718	5,082,355	8,567,286	12,218,219	17,899,471

Source: Aceda Bank (Cambodia), MIX Market profile

Microfinance Reporting Solutions - MIX

- Validate information
 - Sub-totals
 - Linked information

- Capture breakouts
 - Products
 - PAR
 - Maturity profiles
 - Reporting segments

ASSETS

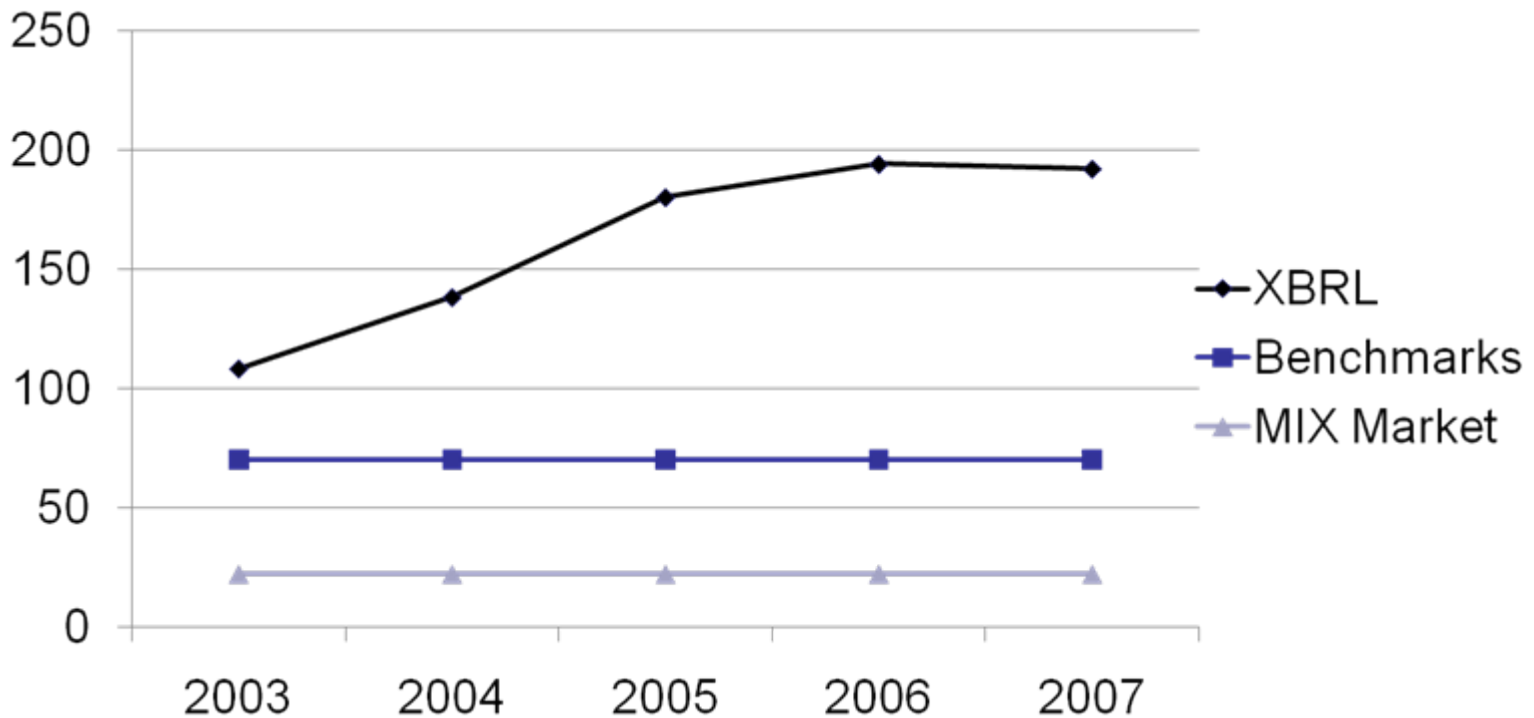
	Rupees
Cash and balances with SBP and NBP	8 198,325,188
Balances with other banks/NBFIs/MFBs	9 527,512,129
Lending to financial institutions	10 72,959,550
Investments-net of provisions	11 545,684,356
Advances-net of provisions	12 1,193,609,274
Operating fixed assets	13 169,202,301
Other assets	14 99,869,596
Deferred tax asset	15 -
Total assets	2,807,162,394

	Note	2007	
		Number	Rupees
12	ADVANCES - net of provisions		
	Considered good	97,508	1,196,457,681
	Considered doubtful	3,886	25,101,573
		<u>101,394</u>	<u>1,221,559,254</u>
	Less: Specific provision		9,773,189
	General provision		18,176,791
			<u>27,949,980</u>
			<u>1,193,609,274</u>

20. Customer Deposits

	2007	2006
	GHC	GHC
Current Account Deposits	1,220,793	635,202
Regular Savings	3,021,938	1,370,954
Staff Savings Deposits	79,373	63,426
Susu Savings Deposits	433,330	254,716
Fixed Term Deposits	2,041,853	536,655
Compulsory Savings (Note 20a)	<u>4,807,872</u>	<u>3,040,932</u>
	<u>11,605,159</u>	<u>5,901,885</u>

Microfinance Reporting Solutions - MIX



Average data points available per Cambodian MFI (2003-2007)



Microfinance Reporting Solutions - MIX

Industry benefit

- Flexible, scalable data framework for evolving industry reporting
- Beyond common reporting format to common pool of data built on a single standard
- Common language to link data across technology platforms

Future opportunities

- Link local standards to global standards, promoting linkages to regulators and local associations
- “Straight through reporting” (ex: [SEC Report Viewer](#))

Lynn Exton (Opportunity International)

Microfinance Reporting Solutions

Networks Get Organized:

The Case of Opportunity International (OI)

The next wave of issues for MFIs and networks

What is OI doing?

- OI has over 40 implementing partners in 27 countries, each with different local accounting standards.
- Comparability of financial statements limited given the lack of consistency, resulting in poor MIS driving management decision-making.



What Opportunity International is doing (cont)

- Adopted IFRS as required accounting standard for all owned implementing partners in 2007.
- Encouraging membership partners to adopt IFRS.
- Work with industry groups to address areas where IFRS standards are lacking or not detailed enough.
- Lack of detailed disclosure still a challenge.



MFI Reporting Standards Initiative

This initiative is currently housed by the SEEP Network, which leads Secretariat functions. This was decided in communication with other industry umbrella organizations, including the MIX, CGAP, and others. An industry survey in '08 suggested an existing entity facilitate the effort, rather than create a new institution.

Broad industry stakeholder input.

SEEP Financial Services Working Group

Drew Tulchin, Social Enterprise Associates, Initiative Facilitator

Ruth Dueck Mbeba (MEDA), Elissa McCarter (CHF), Co-Facilitators of FSWG

Working Group Member	Organization	Working Group Member	Organization
Julie Abrams	Microfinance Analytics	Geetha Nagarajan	IRIS center
Tala Abbasi	CHF International	Elena Nelson	ACDI/VOCA
Betsy Abrera	Christian Relief Services	Camilla Nestor	Grameen Foundation
Roberto Aramburu	ASOMIF PERU	Jean-Frederic Paradis	Développement international Desjardins
Chengyu Bai	China Association of Microfinance	Samuel Pérez	ProDesarrollo
Tuan Doan	Save the Children	Herminia Rubio-Gutierrez	CARE USA
Deborah Drake	Center for Financial Inclusion	Chevenee Reavis	Unitus
Lynn Exton	Opportunity International	Urmi Sengupta	ShoreCap Exchange
Jesse Fripp	ShoreBank International Ltd	Sheri Sexton	Opportunity International
Terrence Isert	American Refugee Committee	Thomas Shaw	CRS
Christina Juhasz	Women's World Banking	Allan Robert Sicat	MCPI
Charles Kilibo	Pearl Consults (U) Ltd	Blaine Stephens	The MIX
Prabhat Labh	CARE USA	Ahmed Syed Mohsin	Pakistan Microfinance Network
Christian Larson	The AML/CFT Group, LLC	Lisa Thomas	ShoreCap Exchange
David Malutinok	Habitat for Humanity	Peter Wall	The MIX
Veronica Marcial	Red Financiera Rural	Steve Wardle	Grameen Foundation

The Reporting Standards Initiative (cont)

Work to date:

- Sector survey (see [MFRS Survey Brief](#))
- Stakeholder interviews, conference calls
- Mini-questionnaire at the 2008 SEEP Annual Conference
- Research on business model options (see [paper](#))
- 3 year funding proposal to fund the initiative
- Initiative process

The Reporting Standards Initiative (cont)

Next Steps:

- Continue standards discussion online in Speaker's Corner
July 21-22: www.microlinks.org/sc/standards.
- Launch on-going online discussion group on IFRS w/
accountants.
- Communicate, keep stakeholders informed and involved.
- Ensure stakeholder representation at interim meetings prior to
official launch.
- Update reporting standards, adding savings and capital ratios.
- Launch formal committee late 2009.



How YOU can be involved:

1. Promote, promote, promote!
2. Identify microfinance networks and other stakeholders to be involved.
3. Participate in online discussions, document review, input and feedback to developments.

Thank you!

A screencast of this presentation will be available shortly at www.microlinks.org/afterhours.

Contact: Drew Tulchin, Drew@SocialEnterprise.net

Website: www.seepnetwork.org, click on initiatives.