

Microfinance Reporting Standards Committee

Concept Note



**A publication of the Financial Services Working Group (FSWG)
Sub-committee on Financial Reporting Standards**

This concept note outlines the creation of uniform Microfinance Accounting and Reporting Standards and a Committee to lead this initiative for a three year pilot period.

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.

Overview

With the publication of *Measuring Performance of Microfinance Institutions: A framework for reporting, analysis and monitoring* by SEEP in 2005, the microfinance industry issued its first update to microfinance reporting standards in ten years. In defining these new reporting standards, the authors consulted experts from among investors, donors, rating agencies, MFIs and networks to ensure that the latest standards met the needs and reflected the current state of microfinance service delivery.

Based on discussion with these actors and given the rapid pace of change in the sector, the authors suggested in the preface to the new reporting standards that a microfinance standards committee would be created to monitor industry developments and ensure that reporting standards keep pace with industry developments. Representatives from various stakeholder groups met in October 2004 on funding from the initial standards development project and validated the committee concept. Without subsequent funding, the committee never finalized statutes and operating procedures or took up function.

The pace of change in the microfinance industry calls for reporting standards that ensure industry developments are quickly translated into comparable information allowing analysts to study industry trends and comfort investors. As more institutions become regulated service providers, reporting standards must reflect information on capital adequacy norms and other disclosures relevant to deposit taking institutions. New operational models, such as the bank agent model made popular in India and/or new service delivery channels such as mobile phones, ATMS and other points of service, require application of existing standards to new situations or potentially the development of new standards. A permanent Microfinance Reporting Standards Initiative and a committee will bring continuity and consistency to reporting in a rapidly evolving sector.

Value

A Microfinance Reporting Standards Committee would support the industry by:

- Ensuring that reporting standards evolve in step with industry developments
- Improving comparability of microfinance performance results
- Increasing investor comfort with microfinance service providers
- Enabling a technology data standard which can, in turn, enable new technological applications with industry-wide application
- Providing a proof of concept and practical framework for the establishment and maintenance of social performance data standards

Committee activities

The Committee will be responsible for a host of activities designed to improve reporting standards, as well as their adoption within the industry. These activities include:

- Collecting queries on reporting standards from constituents,
- Reviewing and vetting queries on reporting standards,

- Issuing updates to reporting standards and definitions, and
- Promoting reporting standards among constituents.

Collect queries on reporting standards

Committee members will be responsible for surveying members on reporting standards. Through their existing representative bodies, they will seek to collect questions from their stakeholders group on application of reporting standards or reporting of data not covered by current standards. While the members and their representative bodies may collect these queries independently, they will be encouraged to channel questions through the Secretariat and whatever query / survey mechanism that it designs.

Review and vet queries on reporting standards

Committee members will meet periodically to review queries received by the Secretariat and stakeholder constituents. Queries will be assigned a priority grade to ensure that pressing requests are vetted in a timely manner.

Issue updates to reporting standards and definitions

Committee members will issue updates to reporting standards based on the queries reviewed and vetted by the body. Wherever possible, the committee will refer to existing reporting standards and issue statements of how to apply them in new situations. If necessary, the committee will issue addenda to reporting standards to address new topics in reporting on microfinance service delivery. Reporting standards and definitions will first be compared to and reviewed under International Accounting Standards and Financial Reporting Standards. The committee will seek to provide the framework for including social performance and other reporting standards initiatives, as appropriate.

Promote reporting standards

Committee members will be specifically tasked with promoting reporting standards in the industry in general and within their stakeholder group. The committee will determine what shape promotional activities will take, but may include:

- Certify reporting software for compliance with standards
- Develop technical standards for data exchange (like XBRL or ISO exchange)
- Require standards compliant reporting from their members or portfolio institutions (if investor/donor or network)
- Report according to standards (if MFI)
- Design and disseminate marketing materials available in multiple languages
- Maintain a multilingual website on reporting standards

- Develop training materials on reporting standards
- Work with other standards promoting groups, such as the Global Reporting Initiative or the microfinance Social Performance Task Force, to incorporate evolving reporting standards and merge common goals
- Work with IFRS to achieve recognition of a microfinance sub-group within the International Accounting Standards Committee

Committee functioning

A part-time Secretariat will support the committee and carry out all operational aspects of the committee's work. The Secretariat will be chosen in such a manner as to ensure independence, non-partisan management of the committee. Secretariat responsibilities will include:

- Administering the committee and its work
- Organizing and preparing committee meetings
- Setting up and managing a website that will:
 - Explain and promote microfinance reporting standards
 - Disseminate microfinance reporting standards
 - Allow the public to query the committee on application of reporting standards
- Collecting queries through disparate channels and represented stakeholder groups
- Preparing technical committee work, including researching updates, new standards

In order to undertake its work, the committee will be required to meet periodically, in person or remotely. Committee statutes will determine frequency, means, and decision making. Frequency ensures committee decisions remain relevant to an evolving industry.

Committee decisions will be published as reporting standards. These decisions may be:

- Updates to existing standards
- Applications of existing standards
- New standards

Updates would require amending existing standards to reflect changes in the industry that have a material impact on the current standard. Applications would instruct users in how to interpret existing standards in situations not specifically addressed in the original standards. New standards would address new areas of reporting. The committee will determine the frequency for publishing its decisions.

Committee composition

The committee will draw on the breadth of industry stakeholders. In selecting committee members, the committee will seek to:

- Establish legitimacy of reporting standards
- Capture issues for review pertaining to wide range of MFI service providers
- Statute on these issues in a manner relevant to most industry stakeholders

Industry stakeholders will be represented by associations or other natural representative bodies – where they exist. Delegation of a representative to the committee will be left to the representative body. The committee will only determine the frequency of rotation of committee members from all stakeholder groups. Major stakeholder groups include:

STAKEHOLDER GROUP	POTENTIAL REPRESENTATIVE BODY
MFI's	[Potentially Microfinance Network members]
Investors / Fund managers	CMEF or IAMFI
Donors	CGAP
Analysts	[Potentially facilitated by ratings fund]
Networks (international/national)	SEEP

In order to achieve balance and broaden perspectives on microfinance service delivery, the committee may include more than one representative from each group. For example, given the small but growing number of industry actors involved in deposit mobilization or insurance, additional committee members may be recommended from one of the above stakeholder groups to represent these views.

To ensure further convergence with global reporting standards, a standing sub-committee will review all decisions for compliance with International Financial Reporting Standards (IFRS). This committee will either include or have access to an expert in IFRS.

Funding

Three year initial funding will be sought for the committee to operate as a pilot exercise. This budget should allow the committee to prove its value to the industry and establish its legitimacy as the primary body for reporting standards development within the microfinance industry. Based on the success of its pilot period, the committee will seek long term funding or an endowment to ensure more permanent operations.

Measures of success

The committee will be deemed successful in its pilot exercise if it achieves the following:

- Increased standards compliant reporting by MFIs
- Committee decisions lead to standards adopted by MFIs in their reporting
- Microfinance information consumers reference the standards committee and microfinance reporting standards in their requests for information

Next steps

The following steps are planned to advance the concept and advance the committee:

ACTIVITY	TIMEFRAME
Document a functional business, operating model	On-going
Hold initial committee meeting to draft statutes	Q4: 2008
Raise funding	On-going
Operationalize Secretariat	Q4: 2009



Authored by members of the Financial Services Working Group

Peter Wall, **THE MIX**
Blaine Stephens, **THE MIX**
Steve Wardle, **GRAMEEN FOUNDATION USA**

Radi Mitov, **CHF INTERNATIONAL**
Bill Tucker, **THE SEEP NETWORK**
Ruth Dueck Mbeba, **MEDA**

Edited by Sabina Rogers, The SEEP Network

Additional Resources

“Microfinance Industry Financial Reporting Standards Initiative, Survey Results Brief”

“Microfinance Reporting Standards Initiative, Business Models Review”

“MFI Reporting Standards-Setting & Adoption Process”

Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring

Contact

For additional information, contact The SEEP Network
1875 Connecticut Ave NW Suite 414
Washington, DC 20009 USA
Tel: 202.534.1400
Fax: 202.534.1433
Email: seep@seepnetwork.org
www.seepnetwork.org

About SEEP

The Microfinance Reporting Standards Initiative is supported by The SEEP Network. It is the focus of a subcommittee of the Financial Services Working Group. Project information can be found online at www.seepnetwork.org. This report was written by Drew Tulchin, Social Enterprise Associates, with content from AYANI Consulting. Project facilitator is Drew Tulchin, Social Enterprise Associates (drew@socialenterprise.net). We welcome all input, comments, opinions, and support to advance this initiative for the advancement of the entire microfinance industry.

The SEEP Network is a membership association of organizations that support micro- and small enterprise development programs around the world. SEEP’s mission is to connect microenterprise practitioners in a global learning community.

Copyright © 2009 The SEEP Network

Sections of this publication may be copied or adapted to meet local needs without permission from The SEEP Network, provided that the parts copied are distributed for free or at cost—not for profit. Please credit The SEEP Network Financial Services Working Group Sub-committee on Financial Reporting Standards “Microfinance Reporting Standards Committee, Concept Note” and The SEEP Network for those sections excerpted.