EXECUTIVE SUMMARY

From September to October 2008, The SEEP Network sponsored the survey, “Financial Reporting Standards for Microfinance.” This brief provides a short summary of the results. More than 160 people—broadly distributed around the world—responded, representing a wide spectrum of stakeholders, including microfinance institution (MFI) directors, industry practitioners, network leaders, raters, MIS software vendors, investors, donors, bankers, and researchers.

Overall, they expressed a concurrence that financial reporting standards are a priority both for the industry and for individual institutions to address. At least 87 percent saw this initiative as “very important” or “important” for the industry. Common concerns and priorities were articulated across the spectrum of interest groups, including a need for this initiative to:

1) develop internal consensus within the industry on a common platform for reporting that saves MFIs, investors, and donors time; and

2) establish external connections to existing international standards efforts, such as the International Accounting Standards Board (IASB) International Financial Reporting Standards (IFRS).

While there was a preponderance among responses that the initiative would be well served by a formal entity, such as a standing committee, there was no unanimity on its management. The vast majority of respondents (83 percent) recommended instituting a centralized body to lead financial reporting standards for microfinance. Despite this overarching support, there was no consensus on where to house such a body: 26 percent suggested IASB, and 21 percent an independent entity. The most common response (44 percent) suggested that it be housed within an existing microfinance support organization. Support for the Microfinance Information eXchange (the MIX), The SEEP Network, or the Consultative Group to Assist the Poor (CGAP) was split almost evenly. One conclusion is that respondents strongly want to avoid “re-inventing the wheel” or “duplicating existing effort.”

The SEEP Network is prepared to continue to facilitate this collaborative effort, with inclusive communication from other industry representatives. The respondents had a number of thoughtful comments regarding how the initiative could operate, which will be helpful as it moves forward. Resolution on the entity’s form, membership, and process were identified as next steps.

Information on this initiative is online at www.seepnetwork.org and the Enterprise Development Exchange http://communities.seepnetwork.org/edexchange/node/1799. A short concept paper on the Microfinance Reporting Standards Committee was published earlier in 2008.1 A report on business model options from work by other industries on standards, a corollary to this brief, is also available for free download online.2 The initiative actively seeks input, ideas, and time from stakeholders. The initiative facilitator, Drew Tulchin, can be contacted at drew@socialenterprise.net. The aggregated survey data (with entries listed anonymously) is available upon request.

Although the industry is made up of diverse stakeholders with widely varying opinions, the results of this survey highlight the extensive common ground as well as common interest in advancing the financial reporting standards initiative for microfinance. The initiative is energized by the continued contributions from its supporters of thoughtful ideas and generous time commitments for the betterment of the industry as a whole.

---


 Gujar at the microfinance industry calls for reporting standards that ensure industry developments can be quickly translated into comparable information. New products, operational models, and service delivery channels require that standards, particularly for financial reporting, remain up to date and applicable. In 2005, The SEEP Network published the first update to microfinance reporting standards in 10 years, a process of consensus that engaged practitioners, donors (including CGAP), investors, and other stakeholders. The “Framework,” as it is commonly referred to, is now considered the “industry standard.” While widely accepted in the industry, acceptable ratios and terms still have not been universally adopted.

Microfinance as an industry does not have a central body or mechanism to address compliance or updates to financial reporting standards. A number of issues are rising in importance for which a central industry entity would be well placed to address. These include updating the 2005 standards, responding to the increase in international investors, aligning national level regulatory requirements with international standards, supporting MFI vendors (including raters, MIS software sellers, and consultants) to develop a “gold standard” for their products, increasing dissemination of performance and management tools (such as the SEEP FRAME), and ensuring that MFIs can readily adapt to international standards (such as the International Financial Reporting Standards, or IFRS).

In 2007 at the SEEP Network Annual General Meeting, SEEP Financial Service Working Group members identified financial reporting standards as one of the top priorities for SEEP’s attention. A sub-committee of the Working Group was founded to facilitate what is now called the “Microfinance Industry Financial Reporting Standards Initiative.” The survey reported here was a major step in the process of gathering input to chart a path forward.
The respondents were asked questions about the microfinance industry’s use of reporting standards and perceptions of its importance. Overall, the data confirmed that, while the industry’s approach to reporting standards remains fragmented, there is a consensus that reporting standards are important for the industry. And, there was widespread support for more universal benchmarks and mechanisms to adopt standards. In order to establish effective industry-wide reporting standards, the data suggested that the microfinance industry must not only focus on a common “vision” among major stakeholders regarding what standards should consist of but also focus on building the institution-level capacity necessary to ensure information is effectively disseminated and widely adopted.

Most organizations have reporting standards, but the industry’s approach remains fragmented. The vast majority of respondents (76 percent) reported that their organization had a specific tool for financial reporting. However, their motivations for reporting standards varied. A weighted scoring was made of respondents’ priority answers as to why they valued reporting tools, listed in Box 1.

Among those using reporting tools, the leading reasons they used such tools were internal management (40 percent cited this as the top priority; 62 percent as the first or second priority), and operational control (20 percent cited this as the top priority; 65 percent chose it as first or second priority). These were followed by using the tools to provide information to investors and to ensure regulatory compliance. Next, respondents cited the value of standards tools for audit information and industry comparisons (such as the MIX’s Microbanking Bulletin (MBB)). Lower priorities used reporting tools to make it easier for the financial sector to understand microfinance and to normalize the differences between MFIs.

Among networks and service providers, use and understanding of standards tools were notably higher than for respondents as a whole. This reflects an uneven value placed on standards efforts in the industry, a range of knowledge on the subject, and varied levels of adoption. Although not unexpected, these results confirm that while the microfinance industry is making headway in understanding and valuing financial reporting standards, progress toward industry-wide utilization remains uneven.

### Survey Fact...

87% of the microfinance industry respondents recognize the importance of reporting standards.


**MICROFINANCE INDUSTRY**

**FINANCIAL REPORTING STANDARDS INITIATIVE**

**SECTION 3, CONTINUED**

Our colleagues elaborated upon factors limiting reporting in the microfinance industry. The most common responses are identified here, listed in chart 4. Forty-four percent of the respondents cited lack of universal standards as the primary barrier limiting reporting. Twenty-one percent commented on divergent business practices, such as different treatments for loan loss provision, delinquency, write-offs, etc. Twelve percent mentioned the tension between meeting global standards and domestic regulatory requirements. Meanwhile, 8 percent emphasized the balance needed between financial and social objectives for standards.

**CHART 3**

**Key Issues in Reporting for Microfinance to Resolve**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Standards</td>
<td>44%</td>
</tr>
<tr>
<td>Business Practices</td>
<td>21%</td>
</tr>
<tr>
<td>Tension Between National/Global Standards</td>
<td>12%</td>
</tr>
<tr>
<td>Balancing Financial and Social Objectives</td>
<td>8%</td>
</tr>
</tbody>
</table>

**CHART 4**

**Key Standards Issues at the Institutional Level**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Capacity</td>
<td>45%</td>
</tr>
<tr>
<td>High Cost of Compliance/Multiple Reporting</td>
<td>14%</td>
</tr>
<tr>
<td>Transparency</td>
<td>14%</td>
</tr>
<tr>
<td>Balancing Financial and Social Objectives</td>
<td>9%</td>
</tr>
</tbody>
</table>

Institutional-level problems are congruent with the industry-wide problems. Taken together, they highlight the fact that correct balance is needed when advancing this initiative. It is important to establish and maintain rigorous, industry-wide, universal, global standards as a “gold ring” to reach for. Progress for this initiative must ensure that reporting tools are affordable, internal industry dialogue is on-going, communication is maintained with external players, information is widely disseminated, education and training is available to ensure adoption, and incentives are provided to fuel adoption.
Establishing an Entity to Lead Standards Efforts

Industry-wide agreement on the importance of reporting standards provides common ground from which diverse stakeholders can work together. The survey also enquired how such work should be done. Responses largely supported the idea of establishing a formal industry entity, such as a committee, to focus on setting common guidelines, standards, and benchmarks for the microfinance industry. Questions of where to house the initiative and how to effectively operate it day-to-day remain to be answered.

Furthermore, 76 percent agreed that this would be either “very important” or “important” for the industry.

Among those agreeing that a committee would be worth while, the lead reason for its utility was to set industry common guidelines and benchmarks (41 percent). Other value for a committee included bringing together diverse stakeholders (14 percent), to serve as a watchdog/regulatory body (8 percent), and act as a global face for microfinance to external parties (7 percent).

There is widespread support for establishing a central body to guide industry efforts on microfinance reporting standards. Eighty-three percent of respondents agreed that establishing a central entity to guide industry efforts on microfinance financial reporting standards would be a worthwhile addition to the industry.

There is widespread support for establishing a central body to guide industry efforts on microfinance reporting standards.
Respondents noted important considerations affecting the decision on where to house the entity. Their comments emphasized the importance of impartiality, industry connections to on-the-ground organizations, global reputation, and the host’s core competencies. To gather an informed response to these comments, the initiative investigated business models of standards bodies in other industries to see how others addressed similar problems. The “Business Models Report” is available as a corollary work, available at http://www.seepnetwork.org/files/6171_file3_MFI_Reporting_Standards_Biz_Models_11_4_08.pdf.

There were multiple suggestions on how best to inform the industry about standards and encourage their widespread adoption. The leading ideas included trainings, publications, specific web site, development of useful tools, and help for external auditors. No suggestion received more than 25 percent of the votes. Therefore, a diverse and coherent dissemination strategy, as well as an ongoing process will be necessary to ensure “uptake” of standards. Primary suggestions for managing information flows throughout the industry to a central body and then back out included conducting surveys, working with industry coordinating bodies, using an advisory council, and going through MFI associations at the national level.

In conclusion, the initiative thanks the survey respondents for providing their time and opinions. The information gleaned was highly valuable and informative. More time and support will be needed across industry sectors to collectively make these next important steps forward.