Microfinance Consensus Guidelines

DISCLOSURE GUIDELINES FOR FINANCIAL REPORTING BY MICROFINANCE INSTITUTIONS

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The findings, interpretations, and conclusions expressed in this report are entirely those of the consensus group and CGAP, and should not be attributed in any manner to The World Bank, its affiliated organizations, members of their Boards of Directors, or the countries they represent.

This publication was principally drafted by Richard Rosenberg, Patricia Mwangi, Robert Peck Christen, and Mohammed Nasr, with the consensus and participation of the SEEP Network Financial Services Working Group, all of whom have the right to publish it.

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CGAP www.cgap.org
SEEP www.seepnetwork.org

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These disclosure guidelines were developed in consultation with microfinance practitioners and the member donors of CGAP (the Consultative Group to Assist the Poor). In June 2000, CGAP member donors approved the distribution of a preliminary version of the guidelines. This final version (July 2004) is based on the results of field testing and input from the Financial Services Working Group (FSWG) of the Small Enterprise and Education and Promotion Network (SEEP).

Richard Rosenberg, Patricia Mwangi, Robert Peck Christen, and Mohamed Nasr were the principal drafters of this document.

CGAP is a consortium of bilateral foreign aid agencies from 16 countries, 12 multilateral agencies, and 2 private foundations.

Australia: Australian International Development Agency
Belgium: Directorate General for Development Cooperation, Belgian Development Cooperation
Canada: Canadian International Development Agency
Denmark: Royal Danish Ministry of Foreign Affairs
Finland: Ministry of Foreign Affairs of Finland
France: Ministère des Affaires Etrangères, Agence Française de Développement
Germany: Federal Ministry for Economic Cooperation and Development, Kreditanstalt für Wiederaufbau, Die Deutsche Gesellschaft für Technische Zusammenarbeit
Italy: Ministry of Foreign Affairs, Directorate General for Development
Japan: Ministry of Foreign Affairs, Japan Bank for International Cooperation; Ministry of Finance, Development Institution Division
Luxembourg: Ministry of Foreign Affairs, Ministry of Finance
The Netherlands: Ministry of Foreign Affairs
Norway: Ministry of Foreign Affairs, Norwegian Agency for Development Cooperation
Sweden: Swedish International Development Cooperation Agency
Switzerland: Swiss Agency for Development and Cooperation
United Kingdom: Department for International Development
United States: US Agency for International Development
African Development Bank (AfDB)
Asian Development Bank (AsDB)
European Bank for Reconstruction and Development (EBRD)
European Commission (EC)

CGAP, continued

Inter-American Development Bank (IDB)
International Bank for Reconstruction and Development (World Bank)
International Fund for Agricultural Development (IFAD)
International Labour Organization (ILO)
United Nations Development Program (UNDP), United Nations Capital Development Fund (UNCDF)
Argidius Foundation
Ford Foundation

SEEP is a consortium of microfinance practitioner networks and microenterprise development networks. The SEEP FSWG purpose is to promote high standards of financial management and reporting in microfinance practitioners. The SEEP Network members that participated with the FSWG to review these includes the following organizations:

ACCIÓN, International
Agricultural Cooperative Development International (ACDI)/ Volunteers Overseas Cooperative Assistance (VOCA)
Adventist Development and Relief Agency (ADRA)
CARE USA
Catholic Relief Services
Cooperative Housing Foundation (CHF) International
Enterprise Development International
Freedom from Hunger (FFH)
Mennonite Economic Development Associates (MEDA)
Microfinance Information eXchange (MIX)
Opportunity International (OI)
Pro Mujer (Programs for Women) International
Women's World Banking
World Vision International

The rest of the SEEP network membership includes these organizations:

Action for Enterprise, Inc.
Aid to Artisans
American Near East Refugee Aid (ANERA)
American Refugee Committee International
Canadian Centre for International Studies and Cooperation (CECI)
Christian Children's Fund
Coady International Institute
Concern Worldwide, USA
Conservation International (CI)
Counterpart International, Inc.
Développement International Desjardins (DID)
Enterprise Works Worldwide (EW)

SEEP, continued

FINCA International
Food for the Hungry International/Faulu Africa
Grameen Foundation (GF-USA)
International Development Enterprises (IDE)
International Rescue Committee (IRC)
Katalysis Partnership
Mercy Corps International
National Cooperative Business Association (NCBA)
Opportunities Industrialization Centers International, Inc. (OIC)
Oxfam America
Pact, Inc.
PLAN
Project HOPE
Rainforest Alliance
Salvation Army World Service Office (SAWSO)
Save the Children
Société de Coopération pour le Développement International (SOCODEVI)
Strategies for International Development (SID)
Trickle Up Program (TUP)
World Concern
World Council of Credit Unions, Inc. (WOCCU)
World Education, Inc. (WEI)
World Hope International
World Relief (WR)
World Relief Canada
World Vision Canada
World Vision, Inc.

LIST OF ABBREVIATIONS

CGAP	Consultative Group to Assist the Poor
IAS	International Accounting Standard(s)
IFRS	International Financial Reporting Standards
LAR	loans at risk
MFI	microfinance institution
PAR	portfolio at risk
SACCO	savings and credit cooperative
SEEP	Small Enterprise Education and Promotion Network
SIC	Standing Interpretations Committee

Microfinance Consensus Guidelines

DISCLOSURE GUIDELINES FOR FINANCIAL REPORTING BY MICROFINANCE INSTITUTIONS

ABOUT THE DISCLOSURE GUIDELINES

Format of this publication

The disclosure guidelines are printed on even-numbered pages. Examples of guideline rules, which are provided for illustration only, are printed on odd-numbered pages. Highlighted terms preceded by the ➤ symbol are defined in the glossary (annex A).

Why are these guidelines needed?

Donors, other investors, board members, and managers of microfinance institutions (MFIs) rely on the ➤**financial statements** of an MFI when they assess its financial sustainability and loan portfolio. Many financial statements do not, however, include enough information to permit such an assessment.

To help address this problem, a group of sponsors, including the donors who make up the Consultative Group to Assist the Poor (CGAP) and the members of the Small Enterprise Education and Promotion Network (SEEP), have developed these disclosure guidelines to specify information that should be included in MFI financial reporting.

What force do these guidelines have?

CGAP recommends to its donor members that they condition their grants, ➤**soft loans,** *or guarantees on a recipient's full compliance with these guidelines within one year from the start of funding.* This recommendation applies to the class of institutions described in the following sub-section, although donors may also wish to require compliance in other selected cases.

SEEP and the other organizations sponsoring the disclosure guidelines also recommend that their members implement the guidelines.

The sponsors hope that many other stakeholders, such as boards of directors, will adopt these disclosure guidelines voluntarily, on the grounds that they represent the minimum set of financial information needed to understand the condition of an MFI's operations. Without such information, it is difficult to discharge the obligation of fiduciary oversight of an MFI.

For which institutions are these guidelines designed?

These guidelines should be relevant to a broad range of institutions. However, the sponsors do not recommend mandatory compliance with the guidelines on the part of all MFIs. Rather, they recommend that donors require compliance by MFIs that meet the criteria below.

Older/larger. CGAP does not recommend obligatory application of these guidelines to MFIs that are BOTH younger than two years *and* below US $200,000 in total assets.

Not small community-based institutions. These guidelines are not intended for self-help groups, small African SACCOs, and similar community-based organizations that typically do not have more than a few hundred members.

Not ➤**prudentially licensed institutions** *that are regulated by government authorities.* Such authorities impose their own set of disclosure requirements.

Subsidized. CGAP is a consortium of donors. Most (though not all) of the MFIs with which donors work are subsidized to some extent. Unsubsidized MFIs are more likely to be licensed and regulated by government authorities.

Credit-oriented. These guidelines offer relatively little by way of disclosure requirements related to savings. MFIs that take ➤**voluntary deposits** are more likely to be prudentially regulated. ➤**Obligatory "savings"**—deposits that clients must make in order to have access to loans—are best thought of as a condition of the loan contract, rather than a true savings service. Many MFIs for which these guidelines were designed take obligatory deposits, but are still credit-oriented.

Use of the guidelines by MFIs that do not meet the above criteria should be decided on a case-by-case basis.

Donors sometimes finance community-based revolving loan funds (usually as component of a larger project) that are not managed by a formal institution. It is usually impractical for such funds to report the information specified in these guidelines. However, CGAP strongly recommends that donors insist that such revolving funds comply with guideline rule 5.1, which calls for reporting on the status of the loan portfolio. Experience has shown that such projects are often beset by repayment problems, hence revolving funds do not revolve for very long.

Which parts of this manual are mandatory?

A financial report complies with these guidelines only if it conforms to the rules printed in bold face and the more detailed requirements stated in the text. *The examples on the right-hand side of each page are for illustration purposes only and do not constitute part of the disclosure guidelines. Examples identified as (A), (B), (C), etc., represent alternatives.*

To which financial reports do these guidelines apply?

At a minimum, it is recommended that the annual financial reports of an MFI, including audited reports, comply with these guidelines, although much of the information specified here should also appear in reports documenting shorter periods.

These guidelines are not accounting standards.

It must be emphasized that these are disclosure guidelines only. They call for the reporting of certain information, including the accounting method used in deriving that information, but they do not direct the choice of accounting method. Authoritative guidance on accounting standards can be found in the International Financial Reporting Standards (IFRS), which include International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) interpretations, and pronouncements of national accounting standards boards.

For instance, these guidelines require an MFI to report the amount of its ➤**loan loss allowance,** as well as the approach used in determining that amount, but they do not require the use of any particular method in determining the allowance.

The guidelines do not require any particular ➤chart of accounts or reporting format.

These disclosure guidelines are satisfied if the required information is included in the financial reporting of an MFI, regardless of the format or order in which the information is presented. Any chart of accounts or style of presentation can be used, as long as the required information is clearly included somewhere. *Thus the examples provided are simply illustrations of one possible way to present the information; there is no requirement to use the format shown in any example.* Experience has shown that this caution is often not understood, so it is repeated on each example page.

Consequently, these guidelines can be used in any country, regardless of its accounting standards and methods of financial presentation.

The guidelines require certain information not normally found in financial statements.

Most MFIs are unusual institutions: they use a financial business to pursue a social mission that is often supported—at least temporarily—by grants or ➤**soft loans.** In addition, MFIs tend to use loan methods that are far different from those used by conventional banks. Because of these special characteristics, judging an MFI's financial condition requires certain information that conventional businesses do not report, such as information about ➤**in-kind subsidies,** the ➤**delinquency** status of the ➤**loan portfolio,** or other items not required under IFRS. Annex B shows the relation between these guidelines and the disclosure requirements of IFRS.

The text following each guideline rule includes a brief explanation of why the required information is important. More detailed discussions can be found in manuals for financial analysis of MFIs.[1]

The disclosure guidelines do not include all relevant financial disclosure items. IFRS require, and many MFIs provide, disclosure of other financial information beyond the requirements of these guidelines. Decisions as to which information to include in the guidelines were based on a desire to produce a minimum set of disclosure items that would meet two tests:

- Is the information essential for understanding the core condition of an MFI and its potential to move beyond reliance on scarce subsidized funding?
- In present practice, is the information frequently missing from MFI financial statements?

Relationship between the disclosure guidelines and external audits

Annual external audits of the financial statements of MFIs are strongly recommended, and are usually required by funders. Yet even if financial statements are not audited, these disclosure guidelines are intended to apply, especially when financial statements are used to present an MFI's financial condition to outsiders such as donors or investors. Boards of directors and managers can decide which of the guideline rules to apply to financial statements that are prepared for internal use.

Whenever these guidelines are incorporated in the terms of reference for an external audit (see example A), the auditor should be required to issue a clear statement to the effect that the audited financial statements

- *comply fully* with the guidelines (see example B);[2]
- *comply substantially* with the guidelines, with relatively minor deviations (see example C); or
- *do not comply* with the guidelines (see example D).

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[1] Useful reference materials on MFI financial analysis include: Inter-American Development Bank (IDB), *Technical Guide for the Analysis of Microenterprise Finance Institutions* (Washington, D.C.: IDB, 1994; also available in Spanish); Martin Holtmann and Rochus Mommartz, *Technical Guide for Analyzing the Efficiency of Credit-Granting Non-Governmental Organizations* (NGOs) (Saarbrücken: Verlag für Entwicklungspolitik, 1996); SEEP, *Financial Ratio Analysis of Micro-Finance Institutions* (New York: Pact Publications, 1995); Robert Peck Christen, Brigit Helms, and Richard Rosenberg, *Format for Appraisal of Microfinance Institutions,* CGAP Technical Tool No. 4 (Washington, D.C.: CGAP, 1999); Robert Peck Christen, *Banking Services for the Poor: An Expanded and Revised Guidebook for Microfinance Institutions* (Cambridge, MA: ACCIÓN International, 1997); Tor Jansson, *Performance Indicators for Microfinance Institutions: Technical Guide* (Washington, D.C.: IADB/ Social Development Department, 2001).

[2] Guideline rule 3.4 (on cumulative donations) is optional. Thus an MFI can be in full compliance without providing the information discussed in that recommendation.

EXAMPLE A. ILLUSTRATIVE TERMS OF REFERENCE

The auditor will be required to express a conclusion as to whether the financial statements of the MFI comply with the *Disclosure Guidelines for Financial Reporting by Microfinance Institutions,* a copy of which should be attached. The auditor will express a conclusion as to whether the financial statements

- *comply fully* with the guidelines;
- *comply substantially* with the guidelines, with relatively minor deviations; or
- *do not comply* with the guidelines.

The auditor's conclusion will be expressed in an opinion letter or a separate document. For all instances of less than complete compliance, the auditor will identify the nature of each deviation and management's reason for non-compliance.

Guideline rule 3.4 (on cumulative donations) is optional. Thus an MFI can be in full compliance without providing the information discussed in that rule.

EXAMPLE B. AUDITOR'S OPINION LETTER
(Relationship between guidelines and external audits)

The terms of reference for this audit call for the auditor to express a conclusion as to whether the financial statements of the MFI comply with the *Disclosure Guidelines for Financial Reporting by Microfinance Institutions.* These guidelines are voluntary norms recommended by a consultative group of international donors. Thus an institution's failure to comply with these guidelines would not necessarily imply that the institution or its financial statements are in violation of any legal or other authoritative accounting or reporting standard.

We conclude that the financial statements herein with accompanying notes comply with the *Disclosure Guidelines* in all material respects.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

Because these disclosure guidelines are not legally authoritative reporting standards, some external auditors will be reluctant to refer to them in their formal ➤**opinion letter.** In such cases, the auditor can be asked to evaluate compliance with the guidelines in a separate letter.

In any case where there is less than full compliance, the auditor should be required to explain the nature of each deviation from these guidelines and management's reason for non-compliance. If the auditor's evaluation of compliance is included in the opinion letter, it should also include a description of these guidelines, stating that they are voluntary industry norms, not official accounting or auditing standards—especially in cases where less than full compliance is reported.

When unaudited financial statements are presented to outside parties, an MFI's board of directors or management is encouraged to include a similar statement on whether such financial reporting conforms to the guidelines.

Will external audit costs increase if an auditor is asked to report on compliance with these disclosure guidelines?

Comparing a set of financial statements with the requirements of these guidelines is a relatively simple task that should not require more than a few hours and thus should not justify a substantial increase in audit costs.

However, application of the guidelines may add substantially more to audit costs if the auditor must conduct testing which they would not have included in a normal audit. For instance, the disclosure guidelines call for portfolio quality information that is commonly omitted in MFI audit reports. If an external auditor tests ➤**portfolio quality** as part of a regular audit, then preparing the required report should not entail much extra work.

On the other hand, if an auditor's normal audit does not include substantial portfolio testing, the auditor may feel that inclusion of a portfolio report (or other information not covered in the auditor's normal MFI audit) requires additional testing to verify the information. In this case, an auditor may charge an additional fee for the extra work.

Comments and revision

The sponsors expect to issue periodic revisions of these disclosure guidelines. Users are encouraged to contribute to this process by sending corrections, comments, and suggestions via e-mail to:

Moderator, Audit Information Center (AIC): disclosure@MFIaudits.org

EXAMPLE C. AUDITOR'S OPINION

We conclude that the financial statements herein, with accompanying notes, comply substantially with the *Disclosure Guidelines for Financial Reporting by Microfinance Institutions,* apart from the following exception.

The MFI has a small social training program, but has not presented an unconsolidated income statement segregating the income and expenses of its financial service operation, as required by guideline rule 2.1. Management explains that it is unable to perform the necessary cost allocations.

EXAMPLE D. AUDITOR'S OPINION

We conclude that the financial statements herein fail to comply with the *Disclosure Guidelines for Financial Reporting by Microfinance Institutions:*

- Provisioning policy is not explained (guideline rules 4.1 and 4.2).
- The statements include no portfolio report showing the extent of late payments (guideline rule 5.1).
- The value of in-kind donations is not disclosed (guideline rule 3.3).

Management has provided no explanation for these omissions.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

1. FINANCIAL STATEMENTS

1.1 At a minimum, MFI financial statements should include both a ➤*balance sheet* and an ➤income (profit and loss) statement, with accompanying notes.[3]

1.2 Statements should show financial information for both the current year and at least the previous year. They should also include a comment on any unusual movements.

Presenting multiple years of information together permits an understanding of trends. Including more than two years can be useful, but is not required for compliance with these guidelines. If a change in a significant account appears to be unusual or worrisome, a description of the reason for the change will help a reader to assess the MFI's future prospects.

[3] Note that IFRS also require a ➤cash-flow statement (sources and uses of funds), as well as a ➤statement of changes in equity.

EXAMPLE 1.1 BALANCE SHEET AND INCOME STATEMENT

Examples of balance sheets (also called statements of affairs) and income statements (also called profit and loss accounts, or statements of surplus and deficit) are used to illustrate subsequent guideline rules. (See examples 1.2, 3.1, etc.)

EXAMPLE 1.2 CURRENT AND PRIOR YEARS

INCOME STATEMENT FOR 1 JANUARY TO 31 DECEMBER

	Notes	**2003**	**2002**
Financial revenue		1,867,018	1,276,416
Financial expenses		222,350	126,617
Financial margin		1,644,668	1,149,799
Provision for loan losses		50,761	38,310
Loans written off	1	1,219,835	
Administrative expenses		1,243,593	1,055,441
Net operating (loss)/income		(869,521)	56,048
NON-OPERATING REVENUE AND EXPENSES			
Grants and donations		400,000	789,994
Other non-operating income and (expenses)		(41,981)	
Net (loss)/income		(511,502)	846,042

Note 1. Unusual movements

In 2003, management wrote off an unprecedented amount of loan losses in excess of normal provisioning levels. The losses arose from the disintegration of one branch following civil unrest, which resulted in the migration of clients to locations distant from the MFI's areas of operation. Management subsequently closed the branch office.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

2. ➤*SEGMENT REPORTING* FOR MULTI-SERVICE MICROFINANCE INSTITUTIONS

2.1 An MFI that offers both financial and ➤material non-financial services should provide a separate income statement for the financial service operations, in addition to a consolidated income statement and balance sheet for the institution as a whole.

In addition to financial services, many MFIs provide non-financial services (e.g., training, production or marketing assistance, health care, community development) that are not essential to the delivery of their financial services. This type of MFI may not fully segregate the accounting and administration of these different services.[4] However, it is impossible to determine the sustainability of a microfinance operation unless its financial results are presented separately from those of other operations.

The same principles would apply to a commercial bank wanting to report separately on the activities of a microfinance division. In such cases, it is usually desirable for any presentation of financial results to include segment reporting on the microfinance component, as well as financial statements for the bank as a whole.

2.2 The methods used to allocate shared costs or revenues between financial and non-financial services should be clearly explained.

Dividing revenues between financial and non-financial services is usually straightforward. Allocating expenses can be more difficult because many expenses are shared between the two types of services, such as certain office costs or the time of the executive director and other staff that deal with both services. Some reasonable allocation formula thus needs to be determined, and disclosed.[5]

[4] Some MFIs take the position that the non-financial services they provide are an essential part of their methodology for delivering financial services. For instance, they may believe that business training for their clients is crucial to the clients' ability to repay their loans. In such a case, segment reporting is not meaningful and thus not required.

[5] See CGAP, *Cost Allocation for Multi-Service Micro-Finance Institutions,* CGAP Occasional Paper, No. 2 (Washington, D.C.: CGAP, April 1998), which is available on the CGAP website (*www.cgap.org*) or from CGAP, 1818 H Street N.W., Room Q4-400, Washington, D.C.,

EXAMPLE 2.1 SEGMENT INCOME STATEMENT

INCOME STATEMENT FOR 1 JANUARY TO 31 DECEMBER

	Financial Services 2003	Training Services 2003	Total 2003
Income			
Financial revenue from loan portfolio	1,811,925		1,811,925
Financial revenue from investments	55,093		55,093
Training income		46,590	46,590
Total Income	1,867,018	46,590	1,913,608
Expenses			
Interest and fee expenses on funding liabilities	203,247		203,247
Interest on deposits	19,103		19,103
Provision for loan losses	50,761		50,761
Operating expenses:			
Personnel expenses	667,535	57,198	724,733
Other administrative expenses	487,487	31,373	518,860
Total financial, loan loss, and operating expenses	1,428,133	88,571	1,516,704
Net operating income/(loss)	438,885	(41,981)	396,904
Non-operating income:			
Grants and donations	360,000	40,000	400,000
Net income/(loss)	798,885	(1,981)	796,904

[The same information is also presented for 2002.]

EXAMPLE 2.2 EXPENSE ALLOCATION FOR SEGMENT REPORTING

The MFI allocates expenses between its training and financial services on the following basis:

- Personnel expenses—allocates to the training program the cost of two staff who run the program full-time. Allocates the cost of three staff who split time between the training program and the credit program, based on monthly timesheets.
- Other shared administrative expenses—allocates indirect expenses between financial and training services in proportion to the direct administrative expenses of those services.
- Grants and donations—allocates grants and donations based on an agreement with each individual donor.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

2.3 Specific accounts in the balance sheet of a multiservice MFI that are tied to microfinance services (segment assets—see annex B) should be clearly identified.

➤**Segment balance sheets**—as opposed to income statements—may be desirable in some situations, but are not required by these guidelines. A segment balance sheet involves allocation of some shared items, such as fixed assets and capital accounts. Other balance sheet accounts are more clearly identified with a microfinance operation, for instance, loans to clients, loan loss allowances, and liabilities used to fund loan programs.

If a MFI that also delivers non-financial services does not provide a segment balance sheet, then the financial report should indicate which balance sheet accounts are completely or largely tied to microfinance services.

EXAMPLE 2.3 BALANCE SHEET ACCOUNTS RELATED TO MICROFINANCE SERVICES

The following accounts are completely or almost completely tied to microfinance services:

- Assets—loan portfolio, short-term deposits, and other current assets
- Liabilities—deposits, short-term debt, and long-term debt

The following accounts have significant amounts tied to microfinance services:

- Long-term investments—about 60 percent of long-term investments are in membership shares in an apex organization from which the MFI can obtain debt funding, training, and technical assistance for financial services. The remaining investments are long-term deposits of donor funding for training.
- Fixed assets—financial services account for about 80 percent of the use of the MFI's fixed assets.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

3. DONATIONS

3.1 The amount of any current-period donations should be shown. If the donations are reported as revenue on the income statement, such revenue should be shown separately from income generated by an MFI's financial operations. The source and amount of any current-period donations should be reported.

Financial statements for MFIs that are non-governmental organizations (NGOs) sometimes include revenue from donations on their income statement and may lump donation revenue together with revenue from normal operations (mainly interest and fee income). Most MFIs cannot rely on such donations over the long term. Thus, to appraise the long-term viability and capacity of an MFI to grow without continuous infusions of donor funds, stakeholders need to know what the MFI's financial performance would look like without donations. Profit or loss from financial operations cannot be determined unless donation revenue is reported separately.

If donations are included in the income statements, the MFI's ➤**net operating income** or **loss** (interest and fee income from normal financial service operations, minus the expenses of those operations) should be shown, and donations should be separated out as non-operational income, either in the income statement or in a note.[6]

[6] Guideline 3.1, like all the rest in this document, defines informational content to be disclosed, not the format for disclsosure. In a departure from that principle, this footnote (which is not part of the guidelines) highlights a format issue. MFIs wanting to separate grant income (to show it below the net operating income or loss) have sometimes found their auditors reluctant to do so. CGAP recommends that the full amount of grants and donations be disclosed separately both in the income statement and balance sheet for the following reasons:

1. Putting grant income below operating income or loss is consistent with IFRS. IAS I, point 67, allows the presentation of additional line items, headings, and subtotals on the balance sheet when "such presentation is necessary to present fairly the enterprise's financial position." Point 68 states that line items are added when "the size, nature, or function of an item is such that separate presentation would assist in presenting fairly the enterprise's financial position."
2. Grants are less reliable than operating income as a source of future cash flow. Thus, it is more transparent to report these items separately, so the reader can assess the financial position before funding.

EXAMPLE 3.1 DONATIONS SEPARATED FROM BUSINESS REVENUE

INCOME STATEMENT FOR 1 JANUARY TO 31 DECEMBER

INCOME	**Notes**	**2003**	**2002**
Financial revenue			
Financial revenue from loan portfolio	1	1,811,925	1,238,866
Financial revenue from investments	2	55,093	37,550
Total financial revenue		1,867,018	1,276,416
EXPENSES			
Financial expenses			
Interest and fee expenses on funding liabilities		203,247	118,932
Interest on deposits		19,103	7,685
Provision for loan losses	3	50,761	38,310
Administrative expenses			
Personnel expenses	4	724,733	660,005
Other administrative expenses	5	518,860	395,436
Total financial, loan loss, and operating expenses		1,516,704	1,220,368
Net operating income/(loss)		350,314	56,048
NON OPERATING REVENUE AND EXPENSES			
Grants and donations	6	400,000	789,994
Other non-operating income	7	46,590	25,847
Other non-operating expenses	8	(88,571)	(25,847)
Net (loss)/income		708,333	846,042

Note 6. Grants and Donations	*2003*	*2002*
1. Donor R (for a new product development project)	400,000	
2. Foundation Q (not earmarked)		289,994
3. Donor M (for a computerized loan tracking system)		500,000
	400,000	789,994

In 2003, the MFI received a three-year grant of 400,000 from Donor R to support the design, testing, and taking to scale of a new microinsurance product.

In 2002, the MFI received a non-earmarked grant of 289,994 from Foundation Q. This was the last installment in a series of annual grants extended by Foundation Q since the MFI began operations in 1993.

In 2002, the MFI received a grant of 500,000 from Donor M to support the implementation of a computerized loan tracking system.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

3.2 The method of accounting for donations should be explained.

Separate disclosure of grants is necessary for a proper understanding of financial statements (IAS 20:31) and to facilitate comparison with other periods and other MFIs.

There are two main issues associated with the recording of grant income. The first issue is where to record a grant: whether to report the grant directly as equity ("capital approach") or to run it through the income statement ("income approach").[7]

The second issue is a ➤**deferral** issue: when to recognize the grant income (or capital). Is the grant recognized when it is received, or when the work for which it is earmarked has been performed? Where a grant is recognized as income (or capital) over more than one period, on what basis is the amount transferred to income (or capital) determined?

The MFI's financial statements need to explain the method chosen. Examples (A), (B), and (C) on the opposite page represent alternatives.

[7] IAS 20 recommends the income approach, but certain national accounting regulations recommend the capital approach.

EXAMPLE 3.2 (A) ACCOUNTING FOR GRANTS AND DONATIONS

The MFI records grants and donations for operations, as well as loan funds for use in the current operating period, in the income statement below the net income from operations. Grants and donations for periods beyond the current operating period are recorded under liabilities as deferred grant revenue.

Grants for fixed assets are recorded as deferred revenue in the balance sheet and an amount equal to the period's depreciation is transferred to income over the useful life of the assets acquired, in accordance with International Accounting Standard 20.

EXAMPLE 3.2 (B) ACCOUNTING FOR GRANTS AND DONATIONS

The MFI records unrestricted grants in the income statement in the period they are received. It records restricted grants as liabilities in the balance sheet and transfers specific amounts to income when restrictions end, in accordance with the requirements of Statement of Financial Accounting Standard 117.

EXAMPLE 3.2 (C) ACCOUNTING FOR GRANTS AND DONATIONS

The MFI records all grants for operational expenses in the income statement below the net profit (loss). It transfers this amount to donated equity in the balance sheet on a memorandum basis. Capital grants for fixed assets and loan funds are recorded directly in the balance sheet as donated equity.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

3.3 Material ➤in-kind donations or subsidies should be disclosed and an estimate of the additional expense an MFI would incur in their absence should be provided.

MFIs often receive in-kind subsidies that are not recorded on their balance sheets or income statements. For instance, a donor may pay the salary of an MFI's executive director, an MFI may occupy rent-free offices, or it may have free use of vehicles owned by an international organization. This practice is especially prevalent in international multi-service organizations that operate programs out of regional or country offices.

These goods or services may be important for the viability of MFI operations and an MFI may have to pay for them in the future, especially as it expands. Thus it is important to identify any such in-kind subsidies and estimate the additional expense the MFI would incur in their absence, even if the estimate is not based on a rigorous valuation.

Sometimes a donor provides in-kind assistance that an MFI would not use in the absence of its relationship with the donor, such as a consultant to conduct an impact study (that serves the purposes of the donor more than those of the MFI). In such cases, the assistance need not be disclosed as an in-kind donation. Similarly, a donor may contribute items, such as consultant services or fixed assets, that an MFI could have obtained less expensively on its own. In such a case, the in-kind donation should be reported, but the value assigned to it should be the amount the MFI would have to pay to obtain equivalent assistance, rather than the amount paid by the donor.

3.4 OPTIONAL. The cumulative amount of all donations to an MFI's financial operations in all reporting periods should be shown. (*This guideline rule is optional—while strongly recommended, it is not required.)*

It is useful to have a list of the sources and amounts of cash donations to an MFI's financial operations for all previous periods, or at least the total amount of such donations. This information allows readers of financial statements to determine how much of an MFI's net worth came from donations and how much can be attributed to retained earnings or operational losses.

Such information will often imply large accumulated operational deficits that have been funded by donations. These deficits require careful interpretation; they are not necessarily a negative reflection on management performance. For instance, if an MFI's mission has been redefined only recently to include financial viability, the fact that costs during prior years exceeded operational revenues is not in itself an indication of management failure.

EXAMPLE 3.3 IN-KIND DONATIONS

The MFI relies on services contributed in kind that are not recorded in its financial statements.

- Since September 2003, a consultant who is a staff member of Apex Organization H has served as Information Systems Advisor and provided technical assistance on the rollout of new management information system (MIS) software. Management estimates a fair market value for this service of 4,000 per month. The subsidy amounts to 16,000 for 2003.
- Three branches operate out of offices that are provided rent-free by the municipality. Management estimates a fair market rent for similar space at 12,000 for 2003 and 11,500 for 2002.
- The regional representative of X International serves as director for both the MFI and X International. About 60 percent of the director's time is spent on the microfinance program. Without this, the MFI would have to hire a full-time director at an estimated cost of 40,000 per year.

EXAMPLE 3.4 CUMULATIVE DONATIONS

CUMULATIVE DONATIONS RECEIVED THROUGH 2002

1993	UNCCM (direct operations support)	79,000
1993	UBQ International (opening of 2 new regions)	450,000
1995	GSP Agency (not earmarked)	576,550
2000	JDS Promotion Fund (expansion of loan portfolio)	1,080,000
2001	CGAP (not earmarked)	300,000
		2,485,550

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

4. MICROLOAN PORTFOLIO ACCOUNTING ISSUES

4.1 Any provision expenses related to actual or anticipated loan losses should be shown separately from other expenses in the income statement. The accounting policy underlying the recognition and amount of such loan loss expenses should be clearly described.[8]

4.2 The amount of the ➤loan loss allowance should be shown. The provisioning policy underlying the determination of this allowance should be clearly described.

The loan portfolio is usually an MFI's biggest asset, and nonpayment of loans is typically the most serious risk in microfinance. Clear reporting in this area is crucial, especially since MFIs tend to underestimate eventual loan losses.

A provision expense for anticipated loan losses is important because without it, the income statement will underestimate the true costs of an MFI's operations, and thus overestimate profitability. Similarly, unless there is an allowance for loans that are likely to become uncollectable, the balance sheet will overstate the true value of the loan portfolio and the MFI's true net worth. When an MFI does not provision for loan losses, this fact should be explicitly disclosed.

The reasonableness of provision expenses and loan loss allowances cannot be assessed without knowing how they were determined. Thus readers of an MFI's financial statement can make no solid judgment about the institution's real profitability or real value of its assets unless the methods that the MFI uses to determine the loan loss provision expense and loan loss allowance are reported clearly and in sufficient detail. The financial report should go beyond general statements such as "provision expense is recognized in an amount necessary to bring the loan loss allowance up to an appropriate level." If an MFI has no defined policy on these matters, this fact should be explicitly reported.

[8] The use of terms like *provision*, *reserve,* and *allowance* in connection with loan losses is not standardized and can be confusing. In these guidelines, *loan loss provision* expense refers to an income statement account reflecting the cost of anticipated failure to collect loan principal. *Loan loss allowance* refers to a balance sheet account (often a contra-asset deducted from the loan portfolio) that compensates for expected losses in the value of the portfolio due to non-collection. IFRS recommends that the term *reserve* be used only for allocations of retained earnings in the equity account, and that *impairment allowance* be used in place of the *loan loss allowance*.

EXAMPLE 4.1–4.4 (A) LOAN LOSS PROVISION EXPENSES, ALLOWANCE FOR LOAN LOSS, WRITE-OFFS, RECONCILIATION

INCOME STATEMENT FOR 1 JANUARY TO 31 DECEMBER

	Notes	2003	2002
Financial income		43,594,899	28,655,989
Financial expenses		(4,239,558)	(2,874,982)
Gross financial margin		39,355,341	25,781,007
Provision expense for doubtful loans	4	(2,795,563)	(998,641)
Gross operating margin		36,559,778	24,782,366
Operating expenses		(23,426,915)	(15,543,754)
Net profit from operations		13,132,863	9,238,611
Non-operational income		4,102,821	5,349,091
Net profit for the year		17,235,684	14,587,702

Note 4. Loan loss provision, allowance, and write-off policy

The MFI sets an allowance for loan loss of 3 percent of the outstanding loan portfolio. This percentage is based on the historical performance of the loan portfolio.

At the end of each fiscal year, the MFI computes a provision for doubtful debts based on the amount required to maintain an allowance for loan losses of 3 percent of the outstanding loan portfolio.

Management writes off all loans with overdue payments older than 180 days from the date the first missed installment fell due, twice a year, in the middle and at the end of the fiscal year.

The following schedule reconciles loan loss provisions, loan loss allowance, and write-offs:

MOVEMENTS IN LOAN LOSS ALLOWANCE	**2003**	**2002**
Allowance for loan loss, 1 January	1,839,902	1,217,020
Loan loss provision expense for the year	2,795,563	998,641
less:		
Loans written off during the year	(559,749)	(375,759)
Allowance for loan loss, 31 December (3% of loan portfolio)	4,075,716	1,839,902

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

4.3 The amount of loans ➤ written off during the period must be shown. The policy governing the amount written off should be stated clearly and in detail, including how other accounts are affected by the write-off.

When the probability of collecting a loan becomes very low, normal practice is to charge the loan off by deducting its value from the loan portfolio, balanced by reducing the loan loss allowance or, if there is no allowance, by charging an equivalent expense to the income statement.

The apparent gross value of an MFI's loan portfolio and the apparent quality of its repayment performance are directly affected by management decisions about how and when to write off loans. Thus the financial report must clearly describe the policy governing write-offs, even if that policy is not formally documented. In particular, the description must explicitly identify when a loan is first considered late (after the first missed payment? after 90 days of missed payments? after the loan term has expired?); how long it takes a loan to enter write-off status after it has been defined as late; and when write-offs are actually carried out during the reporting period.

4.4 The financial presentation should include a table that reconciles the accounts affecting the loan portfolio, including:

- Loan portfolio at the beginning and end of the period
- Loan loss allowance at the beginning and end of the period
- Loan loss provision expenses during the period
- Write-offs of uncollectible loans during the period

EXAMPLE 4.1–4.4 (A) continued

BALANCE SHEET AS AT DECEMBER 31 1999

ASSETS	**Notes**	**2003**	**2002**
Cash		8,212,340	7,188,634
Short term deposits		4,255,336	2,002,052
Total loan portfolio	11	135,857,195	61,330,071
Loan loss reserve		(4,075,716)	(1,839,902)
Net loan portfolio		131,781,479	59,490,169
Other short term assets		1,529,717	4,008,301
Long term investments		26,832,597	21,718,525
Fixed assets		9,913,001	7,251,278
Other assets		1,438,610	1,014,322
Total assets		183,963,081	102,673,281
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities with other banks		79,911,207	16,648,491
Accounts payable		1,115,155	4,067,812
Accruals		1,813,042	1,291,692
Deferred Income		22,012,119	18,789,412
Total liabilities		104,851,522	40,797,407
EQUITY			
Share capital		24,278,526	24,278,526
Reserves		7,442,569	7,442,569
Retained earnings		47,390,463	30,154,780
Total equity		79,111,558	61,875,875
Total liabilities and equity		183,963,081	102,673,281

Note 11. Outstanding loan portfolio

	2003	**2002**
Current loans	130,552,985	59,268,628
Loans overdue 1 to 180 days	5,304,210	2,061,443
Total loan portfolio	135,857,195	61,330,071
Allowance for loan loss	(4,075,716)	(1,839,902)
Net loan portfolio	131,781,479	59,490,169

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

EXAMPLE 4.1–4.4 (B) LOAN LOSS PROVISION, ALLOWANCE, AND WRITE-OFF POLICY

Management provisions for loan losses every quarter to maintain an adequate allowance for doubtful loans. The allowance for loan loss is determined by applying predicted loss percentages to aged loans, grouped by lateness of payments. A loan becomes late as soon as a scheduled installment is missed. The predicted loss percentages are based on management's analysis of historical outcomes of late loans. The allowance for loan loss as of 31 December 2003 is as follows.

LOAN LOSS ALLOWANCE COMPUTATION

	Outstanding loan portfolio (principal)		Allowance for loan loss	
	Share of total	Amount	Percent	Amount
Normal loans				
Current	95%	1,850,924	1%	18,509
1–30 days late	2%	40,713	25%	10,178
31–90 days late	1%	26,967	50%	13,484
More than 90 days	1%	14,026	100%	14,026
Renegotiated loans				
Current and up to 30 days late	0%	8,645	25%	2,161
More than 30 days late	0%	2,110	100%	2,110
Total	100%	1,943,385		60,468

At the end of each fiscal year, management reviews all loans more than 90 days late and writes off, on a case-by-case basis, those that have no realistic prospects of recovery. Write-offs are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss.

The following schedule reconciles loan loss provisions, allowance, and write-offs.

MOVEMENTS IN LOAN LOSS ALLOWANCE	**2,003**	**2002**
Allowance for loan loss, 1 January	37,946	28,234
Loan loss provision expense for the year	28,006	35,573
Loans written off during the year	(5,484)	(25,861)
Allowance for loan loss, 31 December	60,468	37,946

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

EXAMPLE 4.1–4.4(C) LOAN LOSS PROVISION, ALLOWANCE, AND WRITE-OFF POLICY

At the end of each fiscal year, management reviews all loans that are more than 180 days late from the date of the latest installment that has not been paid in full. Management makes case-by-case decisions on loan write-offs, depending on whether reasonable collection efforts have failed. Loans are written off by deducting the outstanding principal balance from the loan portfolio and from the allowance for loan loss. Management wrote off loans totaling 13,763 in 2003 and 8,443 in 2002.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

4.5 If an MFI ➤accrues unpaid interest on late loans, there should be a clear and thorough explanation of its policies on this matter, especially the point at which further accrual of unpaid interest ceases and previous accruals are either reversed out of income or expensed.

Many financial institutions continue to recognize interest income on a loan as it comes due even when the interest has not been received because payment is late. There is a tendency to continue this accrual past the point where collection of the interest becomes doubtful. Thus it is important to disclose the policies behind such accrual.

4.6 Income from investments should be shown separately from interest, fees, or other loan income collected from borrowers.

One of the most powerful diagnostic tools of an MFI is a comparison of the income actually collected from loans with the income that it expected according to the terms of the loan contracts. A material "yield gap" usually indicates the presence of unrecognized repayment problems, an accounting anomaly, or fraud. This and other important analyses cannot be performed unless income from the loan portfolio is shown separately from other income. (No example is provided for guideline rule 4.6 because its application is straightforward.)

EXAMPLE 4.5 INTEREST ACCRUAL ON LATE LOANS

Interest income on loans is collected with monthly loan repayments. Due but unpaid interest is accrued on late loans for up to 90 days. After 90 days, late loans are classified as nonperforming and further accrual of unpaid interest income ceases. Accrued interest on nonperforming loans, including written-off loans, is reversed out of income on an ongoing basis. Accrued interest was 4,912 on 31 December 2003 and 3,034 on 31 December 2002.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

5. PORTFOLIO QUALITY AND MANAGEMENT

5.1 A portfolio report should show the extent of late payment on loans for the current reporting period. The measures of late payment should be thoroughly explained, including precise definitions of the numerator and the denominator of any ratio measuring loan portfolio quality.

The degree of delinquency in a loan portfolio is usually the strongest predictor of whether loans will ultimately be collected. Thus the level of delinquency is an important factor in setting appropriate loan loss allowances. Conventional financial statements often do not include a delinquency report. Nevertheless, a delinquency report is crucial in assessing the financial health of an MFI. Because many MFIs are not subject to banking regulations, they are not bound by external rules in setting their levels of loan loss allowances.

The core of a delinquency report is usually a ratio or ratios that summarize the condition of the portfolio. A ratio is a percentage resulting when one measured number (the numerator of the fraction) is divided by another (the denominator). Many different ratios are used to measure delinquency, and their terminology is not consistent. Interpreting a reported ratio is impossible unless the report is completely clear about what is being measured in both the numerator and the denominator of the fraction.

The portfolio report required by these disclosure guidelines must, at a minimum, contain one or more of the ratios calculated by an MFI to measure its portfolio delinquency, together with a full and precise explanation of what is being measured.[9] If an MFI does not track and quantify the delinquency status of its portfolio, this fact should be explicitly stated.

Most ratios used to measure loan delinquency fall into one of three categories:

- Portfolio at risk (PAR) ratios—where the numerator is the ➤**outstanding** balance (principal remaining to be paid) of loans that are at higher risk because a payment is late by a specified number of days, and the denominator is the outstanding balance for the entire portfolio. Example 5.1 (A) on the facing page illustrates an aged portfolio-at-risk report, which is considered the international standard for portfolio reporting and is strongly recommended for MFIs.

  In cases where an MFI cannot compute a PAR, a simpler alternative, sometimes called "loans at risk" (LAR), can produce information that is roughly equivalent. The numerator of LAR is the number of outstanding loans that are late and the denominator is the total number of outstanding loans. LAR will approximate PAR except in cases where large loans

[9] For a detailed discussion of delinquency measures and their interpretation, see Richard Rosenberg, *Measuring Microcredit Delinquency: Ratios Can be Harmful to Your Health,* CGAP Occasional Paper No. 3 (Washington, D.C.: CGAP, June 1999).

EXAMPLE 5.1 (A) PORTFOLIO QUALITY

The MFI's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are overdue. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio (that is, before deducting the allowance for loan loss).

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid. The MFI does not convert late or penalty interest into principal.

	Outstanding principal balance	
	Portfolio at risk	**Amount**
Normal loans		
Current		1,850,924
1–30 days late	2.1%	40,713
31–60 days late	0.7%	14,480
61–90 days late	0.6%	11,967
91–180 days late	0.5%	9,026
More than 180 days late	0.3%	6,645
Subtotal	4.2%	1,933,755
Rescheduled and refinanced loans		
Current	1.9%	38,002
1–30 days late	0.4%	8,215
31–90 days late	0.2%	4,001
More than 90 days late	0.1%	1,712
Subtotal	2.6%	51,930
Total	6.8%	1,985,685

Normal loans more than 360 days late, as well as rescheduled and refinanced loans more than 180 days late, are automatically written off.

Loan terms are between three months and one year. Loan payments are scheduled weekly for loans shorter than six months. Longer-term loans are paid in monthly installments. Management estimates that the average term of its loan portfolio is about five months.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

differ substantially from small loans in terms of average repayment performance.

- Collection or repayment rates—where the numerator is payments received and the denominator is payments due. Collection rates can be a powerful analytic tool, but unless they are measured and treated carefully, they can give a highly over-optimistic impression of portfolio quality.[10]
- Arrears rates—where the numerator is late payments and the denominator is some measure of the total portfolio. This kind of indicator also tends to give an over-optimistic impression of portfolio quality.

For any variable involving the concept of lateness, a financial report should be precise and unambiguous about the value being measured and the point at which a loan is first treated as being late. The following list includes variables commonly used in the numerators and denominators of delinquency ratios and indicates specific questions that must be answered if the variable is used. Beyond these questions, any other information needed to make the meaning of a ratio unambiguous should also be disclosed.

Numerator variables

- Outstanding balance of late loans for which one or more payments are due but unpaid, or number of active loans that are late. (At what point is a loan considered late? Does this balance include only principal, or interest as well?)
- Amount of late payments. (At what point is a loan considered late? Is "lateness" tied to missed payments or to the expiration of the loan term? Does the measure include principal, interest, and/or penalty interest?)
- Loan payments actually received during a period. (During what period? Does the measure exclude everything but cash payments, or does it include non-cash items like post-dated checks, seizure of collateral that has not yet been sold, etc.? Does the measure include only principal, or principal and interest? How are ➤**prepayments** and late payments treated?)

Denominator variables

- Total outstanding balance of ➤**active portfolio.** (Does this number include capitalized interest—that is, interest payments that have been added to the principal of the loan?)

[10] For instance, suppose that an MFI making three-month loans with weekly repayments reports a 95 percent collection rate (measured as cash paid divided by cash that fell due for the first time during the reporting period). One might be tempted to think that the MFI was losing only five percent of its loan portfolio per year, and was thus in reasonably stable condition. In fact, such an MFI would be in a desperate situation, losing more than 35 percent of its portfolio every year. Whenever repayment rates are reported, it is preferable that they be re-expressed in the form of an annual loss rate, as explained in the CGAP Occasional Paper No. 3 (see footnote 9).

EXAMPLE 5.1 (B) PORTFOLIO QUALITY

The MFI measures loan delinquency using a current recovery ratio. The numerator of this ratio is total cash payments of principal and interest received during the reporting period (including prepayments and late payments). The denominator is total payments of principal and interest that fell due for the first time during the reporting period, as per the terms of the original loan contracts (regardless of any subsequent loan renegotiations). Penalty interest is not included in the numerator or the denominator of the ratio.

Period	Current recovery ratio
January–December 2002	98.9%
1st quarter 2003	98.2%
2nd quarter 2003	97.1%
3rd quarter 2003	97.4%
4th quarter 2003	96.1%
January–December 2003	97.5%

All loans are paid in 13 weekly payments.

Under these circumstances, a current recovery ratio of 97.5 percent for 13-week loans is approximately equivalent to an annual loss rate of 20.0 percent.

This is computed using the following formula:

$$\begin{aligned} ALR &= (1 - CR)/T \times 2 \\ &= (1 - 0.975)/0.25 \times 2 \\ &= 20.0\% \end{aligned}$$

where:

ALR is the annual loss rate
CR is the collection rate in decimal form
T is the loan term, expressed in years

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

- Total number of active loans
- Amount of payments due during period. (Does the measure include principal, interest, and/or penalty interest? Are payments that fell due during an earlier period but remain unpaid during the reporting period included? Or does the measure include only payments that came due for the first time during the reporting period?)

It is recommended—but not required—that the term and payment structure of an MFI's loans be described: how long is the loan period, and at what intervals are payments scheduled? If an MFI's loans have varying terms or repayment schedules, then the average loan term can be reported (even if based on a rough estimate by management). Or, even more simply, a range can be given.

Information on loan terms and payment structures may be useful in judging the riskiness of the reported level of delinquency. For instance, if 20 percent of loans are more than 30 days late, and the portfolio consists of three-month loans with weekly repayments, then the delinquency situation is very serious. But if the portfolio consists of two-year, fully collateralized loans with monthly repayments, the situation may be somewhat less worrisome.

5.2 A portfolio report should clearly describe an MFI's approach to permitting, tracking, and provisioning for the ➤renegotiation of delinquent loans, as well as the outstanding balance of renegotiated loans.

When a client is having trouble making timely payments on a loan, or is expected to have trouble, an MFI may permit renegotiation of the loan, including ➤**rescheduling/restructuring** (extending the term of the loan or relaxing the schedule of required payments) or ➤**refinancing** (paying off a problem loan by issuing a new loan).[11] In either case, a new loan with a new payment plan is usually entered into the loan tracking system.

If renegotiated loans are not tracked separately, any indication of the client's payment problems will suddenly disappear, at least initially. If the client later misses payments, an arrears rate (delinquent payments divided by total portfolio) will strongly understate the MFI's risk. A delinquency report can be very misleading unless it includes a description of the MFI's practices on renegotiation and the amount of renegotiated loans.

[11] Sometimes loans are renegotiated (refinanced or rescheduled) for reasons other than the client's inability to pay the original loan on time. In these disclosure guidelines, however, renegotiation refers only to problem loans.

EXAMPLE 5.2 RENEGOTIATED LOANS

Under exceptional circumstances, management may renegotiate loans—either refinancing the entire loan (issuing a new loan to pay off an existing one) or rescheduling repayment terms for clients who have suffered catastrophic events and who appear willing and able to repay their loans under longer-term agreements. Every renegotiation of a loan must be approved by a committee comprising the heads of the collections, credit, and internal control departments.

All renegotiated loans are treated as new loans and tracked separately from normal loans in the loan tracking system. Renegotiated loans are tracked separately because they have a higher risk profile than loans that have not been renegotiated.

	2003	**2002**
Rescheduled loans	1,443,224	—
Refinanced loans	278,890	149,672
Normal loans	18,420,648	17,432,050
Total loans	20,142,762	17,581,722

5.3 ➤Related-party ("insider") loans—whether to members of an MFI's management, governing body, or parties related to them—should be fully disclosed, including outstanding amounts, interest rates, collateral, and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely.

When persons with influence over an MFI's governance or management receive insider loans from the MFI, there is an inherent conflict of interest. This situation creates a risk that loans may be made on terms that are not in the MFI's best interests. It is important to have detailed, transparent disclosure of such loans.

Some MFIs have loan specific programs for employees (e.g., for buying motorcycles or for personal emergencies). If numerous, these loans can be reported as a group because they present less risk and because reporting individual loans would be cumbersome.

The MFI's policies on both kinds of related-party loans should be described.

EXAMPLE 5.3 (A) RELATED-PARTY ("INSIDER") LOANS

The loan portfolio as of December 31 includes loans to the following related parties.

RELATED-PARTY LOANS

Borrower	Principal balance outstanding	Loan term	Status
Board chairperson	500,000	24 months	Current
General manager	47,346	12 months	Current
Board member	32,000	4 months	Refinanced & current
Chief district planner	78,890	6 months	Refinanced & late
Staff loans	233,333	3–6 months	2 out of 39 loans are late
Total	891,569		

Loans to board members or staff are uncollateralized, charge 17 percent annual interest on unpaid balances, and are for terms of six months to two years. These loans must be approved by the board of directors. When a loan is to a board member, that member cannot participate in discussion of or voting on the loan.

EXAMPLE 5.3 (B) INSIDER LOANS

The MFI's charter forbids loans to board members, staff, or their families.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

6. DETAILS OF LIABILITIES AND EQUITY

6.1 The following information should be provided on all loans to an MFI that are material in relation to total liabilities:

- **Source of the liability**
- **Terms of the loan: amount, repayment schedule (including ➤grace periods), interest rate, fees, and (if applicable) the foreign currency in which it is to be repaid**
- **Guarantee mechanisms used to obtain the loan, including the percentage of the loan covered by the guarantee**
- **Average outstanding principal balance of the liability during the reporting period, calculated on a monthly or at least quarterly basis**
- **Interest expense during the reporting period, including cash payments and accruals**
- **Full details of any arrears if the MFI has failed to make a payment when due during the period or is not current on the loan at the end of the reporting period**

MFIs often receive debt funding at below-market interest rates. Because an MFI cannot depend on funding future growth with a continued flow of soft loans, it is important to know the extent to which an MFI is being subsidized through this mechanism. If interest amounts and rates are disclosed, it is possible to estimate how much more an MFI would have had to pay if the same loan were taken on commercial terms.

EXAMPLE 6.1 DEBT FUNDING

Debt as of 31 December 2003 and 2002 consisted of the following:

	2003	2002
Organization X	405,000	540,000
Bank Z	1,200,000	—
Others	87,000	12,000
Total	1,692,000	552,000

Organization X: Loan principal of 1,350,000 drawn down in January 1993, payable in 40 quarterly installments, beginning the first quarter after disbursement. The loan accrues interest at 3 percent a year, payable quarterly. Principal and interest are payable in US dollars.

Organization X Loan Repayment (in US dollars)

Year	Loan principal at year end	Average during the year (quarterly)	Annual interest expense
2003	405,000	472,500	14,681
2002	540,000	607,500	18,731

Bank Z: Loan principal of 1,200,000 drawn down in January 2003, payable in 12 semi-annual installments beginning one year after disbursement. The loan accrues interest at 14 percent a year, payable semi-annually beginning six months after disbursement. Principal and interest are payable in local currency. The loan is secured by a £ 40,000 foreign currency deposit and a 50 percent guarantee on principal and interest by Donor Q.

One semi-annual installment of 200,000 became due for repayment but has not been paid.

Bank Z Loan Repayment (in British pounds)

Year	Loan principal at year end	Average during the year (quarterly)	Annual interest expense
2003	1,200,000	1,200,000	268,000

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

6.2 Any type of deposit account that is tied to the ability of MFI clients to obtain loans should be shown separately from other deposits. A general description of the conditions of the account and its linkage to loans should also be provided.

Many MFIs use obligatory savings as part of their lending methodology: potential borrowers are required to deposit certain amounts before or during a loan. Such mandatory savings may reduce an MFI's risk on loans and almost always raise a client's effective cost for a loan. They are best viewed as part of an MFI's loan product. ➤**Voluntary savings,** on the other hand, serve a very different purpose: clients make these deposits for their own liquidity management purposes.

Some MFIs allow clients to add voluntary savings to the same account that contains their obligatory savings. In such cases, this guideline rule does not require the total balances in this type of account to be separated into obligatory and voluntary components.

6.3 Long-term deposits (i.e., deposits that are not potentially payable within one year) should be shown separately from other deposits.

This practice clarifies an MFI's exposure to short-term cash flow demands. (No example is provided for this rule.)

6.4 If an MFI requires clients to make an equity investment (e.g., share capital in financial cooperatives) in order to access loans or other services, such capital should be shown separately and the requirement should be described.

Even though such share capital is treated as equity, clients generally expect to be able to withdraw it when they end their membership. For this reason, an analysis of capital adequacy in a financial cooperative is often based on "institutional capital" built from retained profits.

EXAMPLE 6.2 (A) CONTRACTUALLY TIED SAVINGS DEPOSITS

Note 11. Customer deposits

	31 December 2003	31 December 2002
Voluntary savings	141,637	38,257
Guarantee deposits on individual credit (compulsory)	59,613	54,510
	201,250	92,767

The MFI encourages borrowers to establish savings accounts on a voluntary basis. These savings accounts earn interest of 12 percent per year.

Guarantee deposits of 5 percent of the principal loan balance are required for individual credit. These deposits do not earn interest and may be withdrawn on the maturity date of the underlying individual credit.

EXAMPLE 6.2 (B) CONTRACTUALLY TIED CLIENT DEPOSITS

All savings are placed in accounts that are tied to loan eligibility. The MFI requires all clients to establish a savings account with the MFI and to deposit at least 10 percent of the value of the loan applied for. It further requires clients to make payments into this account equal to 5 percent of each amortization of principal and interest. Clients can withdraw these mandatory deposits only for group-approved emergencies, or upon withdrawing from membership in the MFI.

No example provided for rule 6.3.

EXAMPLE 6.4 MEMBERS' SHARE CAPITAL

Note 13. Members' share capital

	31 December 2003	31 December 2002
Opening balance	1,022,820	943,800
New members (net of withdrawals)	111,480	79,020
	1,134,300	1,022,820

The MFI requires members to subscribe to at least one membership share when they join the institution.

Shares are withdrawable when a member leaves the institution.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

7. OTHER SIGNIFICANT ACCOUNTING POLICIES

7.1 Accounting policies on the ➤accrual or ➤deferral of income or expenses should be briefly explained.

Accrual accounting is a system of accounting in which items are brought to account and included in the financial statements as they are earned or incurred. This contrasts with cash accounting, which brings items to account when cash is received or paid.

EXAMPLE 7.1 (A) ACCOUNTING METHODS

BASIS OF ACCOUNTING

Financial statements are prepared on an accrual basis: transactions are recognized when they occur, not when cash is received or paid. As a conservative exception, interest income on loans is recorded on a cash basis—that is, when it is received in cash. At the end of the year, adjustments are made to accrue interest income on late but performing loans.

EXAMPLE 7.1 (B) ACCOUNTING METHODS

BASIS OF ACCOUNTING

Financial statements are prepared on a cash basis: transactions are recognized when cash is received or paid, not when they occur. Interest income on loans is collected and recorded in full at disbursement. At the end of the year, an adjustment is made to allocate interest collected in advance for the following period.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

7.2 Any accounting policy that provides for, registers, or otherwise compensates for the effects of inflation on an MFI's financial situation should be briefly described, including an indication of the accounts that are affected.

Most of the assets and liabilities of a financial institution are denominated in units of currency. Inflation reduces the real value of the equity capital of such an institution. Where inflation is high, IFRS require the use of an inflation accounting method to reflect this real loss of value. High-inflation countries use different systems to reflect this loss, some legally prescribed and some voluntary.

7.3 MFIs with assets or liabilities denominated in a foreign currency should disclose any significant currency mismatch (➤financial assets in one currency balanced against liabilities denominated in a different currency).

If liabilities in foreign currency are not matched by assets in foreign currency, a currency mismatch or gap exists. If, for instance, an MFI borrows money denominated in foreign currency and makes loans in local currency, it risks substantial loss in the event that the local currency depreciates. A significant currency gap poses a risk to an MFI and should be disclosed. (No example is provided for this rule.)

7.4 If the MFI has material ➤unrealized gains or losses due to foreign currency fluctuations, their amount should be reported, as well as the accounting treatment of such gains or losses.

When a local currency depreciates against foreign currency, the value of an MFI's foreign-currency-denominated liabilities will increase when expressed in local currency terms. The amount of this loss should be disclosed, together with the relevant accounting policies. (No example is provided for this rule.)

EXAMPLE 7.2 (A) MAINTENANCE OF VALUE

The MFI operates in an inflationary economy: the government estimates that inflation was 47 percent in 2003, 39 percent in 2002, and 35 percent in 1997. As a result, the country requires the use of accounting methods that reflect the effects of hyper-inflation. Management maintains accounts under the historical cost approach and restates financial statements at the end of each financial year.

In accordance with inflation accounting, management generates a maintenance of value expense on the income statement and a corresponding capital account on the balance sheet. The value of this account is derived at the close of each accounting period by multiplying the equity of the MFI at the end of the prior accounting period by the net change in the inflation index over the period. This value is considered a financial expense and reduces net profits. The MFI also realizes a gain from revaluing fixed assets. This gain is netted out of the loss from the equity calculations. The net result is also added to the accumulated inflation adjustment that appears on the balance sheet as a capital account.

In addition, the MFI restates historical values on its financial statements in current local currency. It restates all items in the income statement by applying the change in the general price index from the months when the items were initially recorded. It restates non-monetary assets by applying a general price index and reduces restated assets to net realizable value.

EXAMPLE 7.2 (B) MAINTENANCE OF VALUE

Financial institutions in Bangladesh are not required to use inflation-based accounting methods. Nevertheless, the MFI generates a capital reserve representing the concept of maintenance of value. The maintenance of value adjustment to the net income generated by the MFI is calculated by multiplying net financial assets (equity minus fixed assets) by the inflation rate. This "cost" reduces net income on the income statement, allowing the statement to represent real post-inflation profit. Because this cost represents funds that never actually leave the institution, they are accounted for in a separate capital reserve—the maintenance of value reserve. Thus, the accumulated net income account on the balance sheet also represents real accumulated profits after the cost of inflation has been duly considered.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

8. OTHER NON-ACCOUNTING DISCLOSURES

8.1 The number of ➤outstanding loan accounts at the beginning and at the end of the period should be disclosed.

8.2 The number of ➤voluntary savings accounts at the beginning and at the end of the period should be disclosed.

This information, which is not normally included in financial statements, is important for at least two reasons. First, the mission of many MFIs includes a social dimension. Stakeholders of such MFIs are thus usually interested in the institution's outreach (the number of people being served). Second, the number of accounts is needed to calculate a number of useful financial ratios.[12]

These disclosure guidelines call for numbers of accounts, rather than numbers of clients, because the information systems of some MFIs cannot produce the latter.

Many MFIs require clients to save defined amounts before and during their loans. Such obligatory savings, and the accounts in which they are held, are best thought of as part of the loan contract rather than true savings services that clients use to manage their liquidity. Guideline rule 8.2 does not apply to such accounts, even when they contain savings in excess of the client's required minimum; rather, recommendation 8.2 applies only to savings accounts that are in no way tied to the availability of loans.

[12] For instance, the most meaningful benchmark for the efficiency of a credit-only MFI is calculated by dividing total personnel and administrative expenses by the average number of loan accounts outstanding during the course of the year, and expressing the result as a percentage of per capita gross domestic product.

EXAMPLE 8.1 OUTSTANDING LOANS

The MFI had 308,133 outstanding loan accounts at the end of 2003 and 249,625 at the end of 2002.

EXAMPLE 8.2 VOLUNTARY SAVINGS ACCOUNTS

The MFI's clients can open voluntary savings accounts in addition to the mandatory savings required to obtain a loan. The number of voluntary savings accounts began the period at 141,590 and grew to 264,877 at the end of 2003.

These examples illustrate one way to present the information; there is no requirement to use the format shown here.

ANNEX A GLOSSARY

Accrual basis of accounting	Accrual accounting recognizes the effects of transactions and other events when they occur (and not as cash or its equivalent is received or paid), recording them in the accounting records and reporting them in the financial statements of the periods to which they relate.
Active portfolio (or loans)	Loans that are still on the lender's books because they have not yet been repaid in full or written off.
Balance sheet	A summary of an institution's financial position at a given point in time. It presents the institution's stock of assets (e.g., cash, investments, loan portfolio, fixed assets), and liabilities (e.g., loans and/or accounts payable), and equity capital (net worth—the difference between assets and liabilities).
Cash flow statement (sources and uses of funds)	A summary of an institution's cash inflows and outflows during the reporting period.
Chart of accounts	A framework (list of account categories) that structures the classification and recording of accounting transactions.
Deferral	Postponement of the recognition of income to a later period.
Delinquency	Failure to make loan payments on time.
Financial assets (or liabilities)	Cash held and assets or liabilities to be received or paid in fixed or determinable amounts of money. Cash, financial investments, and the loan portfolio are financial assets. Buildings, land, and equipment are not.
Financial statements	A set of reports showing an institution's financial performance and position, typically containing a balance sheet, an income statement, and perhaps a cash flow statement, along with explanatory notes.
Grace period	An initial period after the disbursement of a loan during which a borrower is not required to pay principal (or principal and interest).
Income statement (profit and loss statement, operations statement)	A summary showing income, expenses, and net profit or loss (the difference between income and expenses) for a period of time, for instance, 1 January–31 December.
In-kind subsidy or donation	Goods and services that an MFI uses in the conduct of its operations but does not pay for because they are provided by a donor or other third party.
Loan loss allowance*	An amount set aside in the balance sheet to recognize probable future loan losses so that the true value of the loan portfolio is fairly stated. The allowance is increased by additional loan loss provision expense and reduced by write-offs of uncollectable loans.

* The terms provision and allowance are sometimes used interchangeably. In this document,
➤loan loss provision expense is used only for an expense on the income statement, and
➤loan loss allowance is used only for a balance sheet account.

Loan loss provision expense*	An expense recorded in the income statement to reflect an increase in the probability of losses due to uncollected loans.
Loan portfolio	The asset composed of the loans that borrowers owe to the MFI. The amount of the loan portfolio is the total unpaid principal balance of such loans.
Material	An item is material if its inclusion or omission in the financial statements of an institution would influence or change the judgment of a reasonable person.
Net operating income or loss	Interest and fee income from normal operations, minus the expenses of those operations.
Obligatory savings (deposits)	Savings required as a condition for access to loan services.
Opinion letter	A signed representation by an auditor attesting to the reliability and fairness of a set of financial statements. It is usually presented at the beginning of an audit report.
Outstanding	Remaining to be paid. An outstanding loan is a loan that has been disbursed, but it neither paid in full nor written off. The outstanding portfolio is the unpaid principal balance of all loans owed to a lender.
Portfolio	See loan portfolio.
Portfolio quality	The extent to which loans in a portfolio are repaid in full and on time.
Prepayment	Payment of a loan in advance of the payment schedule in the loan contract.
Prudential licensing/regulation	Licensing and regulation by a government financial authority that is aimed at assuring the financial soundness of a deposit-taking institution in order to protect depositors and the financial system.
Refinancing**	Paying off a problem client loan by issuing a new loan to the client, often with fresh money disbursed, capitalization of the unpaid interest on the prior loan, or both.
Related-party (insider) loans	Loans made to a person in a position of influence within the lending institution, or to someone connected with such a person. Such loans raise conflict of interest issues.
Renegotiation**	Changing the terms of a loan in response to a client's inability to pay it on time. Refinancing and rescheduling are the most common forms of renegotiation.
Rescheduling/restructuring	Extending or otherwise easing the payment schedule of a problem loan by amending the original loan contract.

* The terms provision and allowance are sometimes used interchangeably. In this document, ➤**loan loss provision expense** is used only for an expense on the income statement, and ➤**loan loss allowance** is used only for a balance sheet account.

** Sometimes loans are renegotiated (➤**refinanced** or rescheduled) for reasons other than a client's inability to pay the original loan on time. In these disclosure guidelines, however, ➤**renegotiation** refers only to problem loans.

Segment balance sheet A balance sheet that represents the assets and liabilities that are employed by one segment of a larger organization for its operating activities. These segmented assets and liabilities are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment reporting Reporting that separates the financial results of two or more distinct activities or lines of business conducted by a single institution.

Soft loan A loan, typically from a donor or government, with a lower interest rate than that offered by commercial sources.

Statement of changes in equity A statement that shows the equity (owners' capital) account of an organization at the beginning of the reporting period, changes to that account during the reporting period (e.g., subscribed share capital, reserves, retained earnings, donations), and the position of the account at the end of the reporting period.

Unrealized gain or loss Change in the market value of an asset of liability that is still being held. The gain or loss will be realized when the asset is sold or the liability is paid.

Voluntary savings (deposits) All MFI client deposits held in accounts that are not tied to the availability of loans.

Write-off The elimination of an uncollectable loan amount from the loan portfolio in the balance sheet.

ANNEX B RELATION BETWEEN THESE DISCLOSURE GUIDELINES AND IFRS DISCLOSURE REQUIREMENTS

This annex shows the relationship between these guidelines and International Financial Reporting Standards (IFRS).

Disclosure Guidelines	Consistent with IFRS requirements*	Extended beyond IFRS to meet industry needs
1. Financial Statements		
1.1 At a minimum, MFI financial statements should include both a balance sheet and an income (profit and loss) statement, with accompanying notes.	IAS 1	
1.2 Statements should show financial information for both the current year and at least the previous year. They should also include a comment on any unusual movements.	IAS 1	
2. Segment Reporting for Multi-service Microfinance Institutions		
2.1 An MFI that offers both financial and material non-financial services should provide a separate income statement for the financial service operations, in addition to a consolidated income statement and balance sheet for the institution as a whole.	IAS 14	
2.2 The methods used to allocate shared costs or revenues between financial and non-financial services should be clearly explained.	IAS 14	
2.3 Specific accounts in the balance sheet of a multi-service MFI that are tied to microfinance services (segment assets) should be clearly identified.	IAS 14	
3. Donations		
3.1 The amount of any current-period donations should be shown. If the donations are reported as revenue on the income statement, such revenue should be shown separately from income generated by an MFI's financial operations. The source and amount of any current-period donations should be reported.		IAS 20
3.2 The method of accounting for donations should be explained.		IAS 20
3.3 Material in-kind donations or subsidies should be disclosed and an estimate of the additional expense the MFI would incur in their absence should be provided.		IAS 20
3.4 *OPTIONAL.* The cumulative amount of all donations to an MFI's financial operations in all prior periods should be shown. (*This guideline rule is optional—while strongly recommended, it is not required.*)		(new; industry-specific)

* The references in this column represent International Financial Reporting Standards in which the disclosure requirements appear.

Disclosure Guidelines	Consistent with IFRS requirements*	Extended beyond IFRS to meet industry needs
4. Microloan Portfolio Accounting Issues		
4.1 Any provision expenses related to actual or anticipated loan losses should be shown separately from other expenses in the income statement. The accounting policy underlying the recognition and amount of such loan loss expenses should be clearly described.	IAS 30, 32, 39	
4.2 The amount of the allowance for loan losses should be shown. The provisioning policy underlying the determination of this allowance should be clearly described.	IAS 30	
4.3 The amount of loans written off during the period must be shown. The policy governing the amount written off should be stated clearly and in detail, including how other accounts are affected by the write-off.	IAS 30	
4.4 The financial presentation should include a table that reconciles the accounts affecting the loan portfolio, including: • Loan portfolio at the beginning and end of the period • Loan loss allowance at the beginning and end of the period • Loan loss provision expenses recognized during the period • Write-offs of uncollectable loans during the period	IAS 30	
4.5 If an MFI accrues unpaid interest on late loans, there should be a clear and thorough explanation of its policies on this matter, especially the point at which further accrual of unpaid interest ceases and previous accruals are either reversed out of income or expensed.	IAS 18, 30	
4.6 Income from investments should be shown separately from interest, fees, or other loan income collected from borrowers.	IAS 30, 39	
5. Portfolio Quality and Management		
5.1 A portfolio report should show the extent of late payment on loans for the current reporting period. The measure(s) of late payment should be thoroughly explained, including precise definitions of the numerator and the denominator of any ratio measuring loan portfolio quality.		IAS 1, 32**

* The references in this column represent International Financial Reporting Standards in which the disclosure requirements appear.

** The requirements of the International Financial Reporting Standards are confined to matters dealt with in the financial statements. However, IAS 1 encourages enterprises to present, outside the financial statements, a financial review by management which describes and explains the main features of the enterprise's financial performance and financial position. Furthermore, where the enterprise has significant dealings in financial instruments, IAS 32 suggests that a discussion of management's policies for controlling the risks associated with such instruments would be helpful.

Disclosure Guidelines	Consistent with IFRS requirements*	Extended beyond IFRS to meet industry needs
5.2 A portfolio report should clearly describe an MFI's approach to allowing, tracking, and provisioning for the renegotiation of delinquent loans, as well as the outstanding balance of renegotiated loans.		IAS 32
5.3 Related-party ("insider") disclosures loans—whether to members of an MFI's management, governing body, or parties related to them—should be fully disclosed, including outstanding amounts, interest rates, collateral, and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely.	IAS 24	
6. Details of Liabilities and Equity		
6.1 The following information should be provided for all loans to an MFI that are material in relation to total liabilities: • Source of the liability • Terms of the loan—amount, repayment schedule (including grace periods), interest rate, and (if applicable) the foreign currency in which it is to be repaid. • Guarantee mechanisms used to obtain the loan, including the percentage of the loan covered by the guarantee • Average outstanding principal balance of the liability during the reporting period, calculated on a monthly or at least quarterly basis • Interest expense during the reporting period, including cash payments and accruals • Full details of any arrears if the MFI has failed to make a payment when due during the period or is not current on the loan at the end of the reporting period	IAS 32	
6.2 Any type of deposit account that is tied to the ability of MFI clients to obtain loans should be shown separately from other deposits. A general description of the conditions of the account and its linkage to loans should also be provided.	IAS 1	
6.3 Long-term deposits (i.e., deposits that are not potentially payable within one year) should be shown separately from other deposits.	IAS 1	
6.4 If an MFI requires clients to make an equity investment (e.g., share capital in financial cooperatives) in order to access loans or other services, such capital should be shown separately and the requirement should be described.		IAS 30

* The references in this column represent International Financial Reporting Standards in which the disclosure requirements appear.

Disclosure Guidelines	Consistent with IFRS requirements*	Extended beyond IFRS to meet industry needs
7. Other Significant Accounting Policies		
7.1 Accounting policies on the accrual or deferral of income or expenses should be briefly explained.	IAS 1	
7.2 Any accounting policy that provides for, registers, or otherwise compensates for the effects of inflation on an MFI's financial situation should be briefly described, including an indication of the accounts that are affected.	IAS 29	
7.3 MFIs with assets or liabilities denominated in a foreign currency should disclose any significant currency mismatch (financial assets in one currency balanced against liabilities denominated in a different currency).	IAS 21	
7.4 If the MFI has material unrealized gains or losses due to foreign currency fluctuations, their amount should be reported, as well as the accounting treatment of such gains or losses.	IAS 21	
8. Other Non-Accounting Disclosures		
8.1 The number of outstanding loan accounts at the beginning and at the end of the period should be disclosed.	N/A	
8.2 The number of voluntary savings accounts at the beginning and at the end of the period should be disclosed.	N/A	

* The references in this column represent International Financial Reporting Standards in which the disclosure requirements appear.