New Financial Ratios for Microfinance Reporting

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Overview

Over the past decade, there has been an industry-wide effort to identify and implement financial reporting standards for microfinance institutions. The objective is to provide uniform financial information for all MFIs, regardless of size, maturity or geographic location to managers and stakeholders including investors, donors, raters, MIS software developers, and associations. This promotes transparency, facilitates comparability, improves decision-making, and increases investment by making it easier to observe and understand an MFI's financial health.

After extensive industry collaboration, the SEEP Network released a milestone document in 2005: ***Measuring Performance of Microfinance Institutions, a Framework for Reporting, Analysis, and Monitoring*** (the Framework). The Framework includes foundational information for uniform financial statements and 18 ratios designed to measure MFI performance in four areas: 1) sustainability/profitability; 2) asset and liability management; 3) portfolio quality; and 4) efficiency/productivity. Such information is used on MIX Market, the FRAME tool, investors/donors, MIS software vendors, raters, regulators, auditors, etc. The original Framework was tailored to credit-only institutions.

The MFI Reporting Standards Initiative (the Initiative) seeks to keep the Framework up to date with the evolving microfinance landscape.[1] Its 'Secretariat' is hosted by the SEEP Network. Practitioner involvement is facilitated by the Financial Services Working Group (FSWG), with input provided by representatives from a range of microfinance industry stakeholders. The reporting standards adoption process follows a multi-stage model, based upon that of the International Accounting Standards Board (IASB), which allows for public input and transparency.[2] The goal is to provide a formal mechanism for all MFI industry efforts to be guided by uniform standards. Financial reporting is the first effort, but the process also lends itself to social performance, donor reporting, and uniform general ledgers, among others.

For the first time in nearly five years, the Initiative is leading an organized process to make enhancements to the Framework. In addition to correcting minor errata, eight new ratios are presented to better convey financial position and performance. Four ratios focus on savings, addressing the gap for savings groups, credit unions, and the trend of MFIs transforming into deposit-taking institutions. Further, increased private investment and the global economic downturn highlight the need for better information on capital adequacy, capital quality, and foreign exchange, risks particularly associated with increased integration in the global capital markets. The ratios incorporate recent developments in international accounting and financial reporting, including new standards and guidelines from IASB, Basel II, and IFRS.[3] In the short run, this will likely add obligations to MFIs, particularly for disclosure, financial statement preparation, and reporting. It is a necessary step that ultimately will make reporting easier for MFIs. The MFI Reporting Standards Initiative seeks to ensure microfinance reporting is in line with other standards, complies with international best practices and keeps pace with progress in the field.

This article describes each of the eight new ratios. In a uniform format, the ratio name, framework number, and mathematical equations are provided. Narrative

[1] Website: http://seepnetwork.org/Pages/Initiatives/FinancialReportingStandardInitiative.aspx.

[2] For more details of the adoption process, see "MFI Reporting Standards and Adoption Process" available in English, Spanish, French or Arabic from the website cited in footnote #1

[3] Please refer to each of these entities for their specific standards and requirements: International Accounting Standards Board (www.iasb.org), International Financial Reporting Standards (www.ifrs.com), and eXtensible Business Reporting Language (www.xbrl.org)

follows detailing why the ratio is important, and how it is interpreted.

To more fully understand the implications of the ratios, specific examples are provided with calculations using data from Banco ProCredit Nicaragua (ProCredit Nic). ProCredit Nic was chosen as an illustrative example because it is a well-established, deposit-taking MFI with a gross portfolio of more than USD132 million and 80,000 active borrowers.[4] Nicaragua has a competitive market with active foreign investment and multiple years of data, enabling comparisons to other MFIs.

The new ratios presented here are proposed as drafts per the industry adoption process for public input. Proposed revisions are intended to address current industry evolution, address the gaps of the 2005 Framework, and anticipate advances in microfinance in the coming years. Input and feedback from industry stakeholders is encouraged to the MFI Reporting Standards Initiative (email: reportingstandards@seepnetwork.org).

New Ratios for MFI Reporting

1) Capital Adequacy Ratio: Institutional Solvency

Term	Calculation
Capital Adequacy Ratio (CAR)	Total Capital
	Risk Weighted Assets

Why this ratio is important

Capital Adequacy Ratio (CAR) measures an institution's solvency. The indicator provides information about ability to meet long-term expenses and obligations as well as absorb unanticipated future commitments. It provides better information than the existing R8: Liquid Ratio. CAR measures an institution's resiliency against both expected and unexpected losses, which may result from endogenous and exogenous causes. It is in line with Basel II calculations.

How it is interpreted

Many institutions have approximated capital adequacy by calculating total equity relative to total assets. CAR takes one more step, adjusting for risk level of asset holdings. In accordance with Basel II guidelines, CAR uses *Total Capital* in the numerator as a more complete picture of the MFI's resources. This includes supplementary capital sources, such as loan loss reserves, asset reserves and subordinated debt. It subtracts goodwill to gauge tangible capital. The denominator is a risk-weighted aggregate of assets. Riskier assets require the institution to hold higher capital reserves, including those as a factor to provide more precise solvency than a simple liquid ratio, in which current assets are compared with current liabilities. Calculating *Total Capital* will be new to some MFIs and require more detailed evaluation of their financial statements, as well as more accurate tracking of adjustments.[5]

Higher CARs generally signify more capital, meaning an institution is better positioned to meet financial obligations and address unexpected losses. For regulated institutions, regulators often establish CAR floors that MFIs must maintain.

CAR is particularly informative when compared to regional benchmarks. An appropriate level often depends upon the size and maturity of an MFI, as well as differing socio-political or economic contexts. For example, Nigerian MFIs are more at risk from the country's tenuous socio-political climate than an MFI located in Costa Rica, where political unrest is less likely. Nigerian MFIs are therefore encouraged to target a higher CAR. National authorities in each country set minimum levels of capital for regulated institutions. In most jurisdictions, it is around 8 – 9 percent.This is a particular improvement for investors/ donors, but also valuable for national associations and managers.

Specific calculation

In 2004, ProCredit Nic's CAR was 14.08 percent. The ratio has consistently declined between 2005 and 2008, at which time it reported a CAR of 9.82 percent. The mathematical calculations for these years are on the following page.[6]

This is consistent with similarly sized Nicaraguan MFIs. BANEX, with a comparably sized loan portfolio, had 9.35 percent CAR. Nicaraguan MFIs with smaller portfolios but similar numbers of borrowers posted higher CARs. FDL and ACODEP had ratios above

[4] MIX Market, www.mixmarket.org/mfi/procredit-nic.

[5] An extensive dissemination campaign will be needed to educate the MFI industry and help MFI managers make appropriate advancements.

[6] Most MFIs, including ProCredit Nic, currently report unadjusted solvency, measured by total equity to total assets. The example calculates unadjusted rates, based upon available data.

Table 1 Calculations - Capital Adequacy Ratio

Ratio	2004	2005	2006	2007	2008
Capital Adequacy Ratio (%) (Calculated using Total Equity/Total Assets)					
Total Equity	7,424,151	13,416,553	13,629,654	18,640,607	16,790,418
÷ Total Assets	52,736,154	81,200,105	112,702,315	149,823,237	170,953,075
= Capital Adequacy Ratio	14.08%	16.52%	12.09%	12.44%	9.82%

17 percent. Given all of these institutions operate in Nicaragua, the exogenous variables provide less contrast than internal factors to assess performance given these ratios.

2) Uncovered Capital Ratio: Portfolio Quality and Vulnerability

Term	Calculation
Uncovered Capital Ratio (UCR)	PAR>30 days – Impairment Loss Allowance
	Total Capital

Why this ratio is important

Uncovered Capital Ratio (UCR) provides a more detailed indication of an MFI's portfolio quality. It is recommended as an enhancement to the existing R9, (Adjusted) Portfolio at Risk Ratio. UCR is a more revealing ratio to assess vulnerability and potential loss whereas the previous ratio considered loans in arrears compared with the gross portfolio.

How it is interpreted

Uncovered Capital Ratio is calculated by obtaining the Portfolio at Risk (PAR) greater than thirty days minus impairment loss allowance divided by total capital. When considered in conjunction with the capital adequacy ratio, UCR allows an additional dimension for understanding capital sufficiency.

A low ratio suggests better risk management, indicating the MFI is less susceptible to losses above what it has already provisioned. MFIs should aim to maintain UCR as low as possible, certainly less than 25 percent. As more extensive comparative data is analyzed, more revealing benchmarks will be available. This ratio is a more detailed assessment of the risks faced by a portfolio than the previous PAR>30 days, which will interest managers and investors.

Specific calculation

In 2008, ProCredit Nic's UCR was -5.86 percent. Mathematical calculations for ProCredit Nic's UCR between 2004 and 2008 are as follows.

Between 2004 and 2008, ProCredit Nic maintained UCR ranging from -18.31 percent to -5.86 percent, showing 'improvements' from 2004-07 as the organization had more than adequate impairment allowances compared with the PAR>30 day. Portfolio quality decreased heavily in 2008, the allowance was still more than sufficient.[7] The ratio also implies its CAR may reflect understated solvency. The institution likely has sufficient capital to insulate it from high, unexpected losses given current portfolio quality.

Table 2 Calculations - Uncovered Capital Ratio

Ratio	2004	2005	2006	2007	2008
Uncovered Capital Ratio (%) (Calculated using Total Equity)					
PAR> 30 Days	589,690	1,243,369	1,599,649	1,816,406	6,415,863
- Impairment Allowances	1,437,806	2,860,024	3,705,435	5,229,575	7,399,503
Total Amount at Risk	**-848,116**	**-1,616,655**	**-2,105,786**	**-3,413,169**	**-983,640**
÷ Total Equity	**7,424,151**	**13,416,553**	**13,629,654**	**18,640,607**	**16,790,418**
Uncovered Capital Ratio	**-11.42%**	**-12.05%**	**-15.45%**	**-18.31%**	**-5.86%**

[7] These percentages result from unadjusted Uncovered Capital Ratio computations. Total Equity was used in place of Total Capital in the equation's denominator based on the data available. A more accurate measure would be to conduct the adjustments to arrive at Total Capital.

3) Foreign Currency Risk Ratio: Susceptibility to Shocks for Foreign Exchange

Term	Calculation
Foreign Currency Risk Ratio	(Total Foreign Currency A Assets – Total Foreign Currency A Liabilities)/ Total Equity

Why this ratio is important

The Foreign Currency Risk Ratio measures the relationship between an MFI's net foreign currency assets and its equity for each foreign currency on the balance sheet. By documenting foreign exchange (f/x) exposure, an MFI more transparently reveals its risk to such shocks.

Calculating this ratio will require MFIs to compute and report net foreign currency assets for each foreign currency in which it holds assets or liabilities. This may result in additional administrative effort, at least initially, but it is an essential part of managing foreign currency risk. Reporting this additional data is critical in helping the institution mange its f/x exposure and helping investors understand the type of capital, which could react to liquidity or other crises in the wake of sudden rate shifts.

How it is interpreted

The lower foreign currency risk ratio a MFI maintains, the more limited its vulnerability to changes in foreign currency values. The higher its f/x ratio is, the more risk the MFI faces, which may or may not lead to negative performance. Formal industry benchmarks have yet to be established; however, a rule of thumb of no more than 20 percent ceiling has been cited, although the amount will vary depending on currency stability and may be lower.[8] Local regulatory bodies may have specific requirements.

Specific calculation

The majority of MFIs, including ProCredit Nic, do not currently report foreign currency risk measures. This highlights a troubling gap in transparency, which this ratio seeks to fill. Because many MFIs have international cash flows, they may hold assets and liabilities in other currencies. An MFI with robust measures of Capital Adequacy and Uncovered Capital may still face insolvency risk due to f/x exposure. Stakeholders and investors have a particular interest in this new ratio.

To provide an illustrative mathematical example, we performed calculations assuming ProCredit Nic maintains a 12 percent f/x exposure in each year.

4) Average Deposits Balance per Account: Client Profile & Savings Program Take-up

Term	Calculation
Average Deposits Balance per Deposit Account	Total Deposits
	Number of Deposit Accounts
Average Deposits Balance per Deposit Account Holder	Total Deposits
	Number of Deposit Account Holders

Why this ratio is important

This new ratio, Average Deposits Balance per Deposit Account (Holder), helps an institution gauge its client base in terms of the amount of savings placed in the institution. It also reflects the degree to which savings products address client needs. Evaluation of this ratio provides insights into average deposit account size, a proxy for client wealth. Considering a client's economic profile contributes to an MFI assessing mission adherence.

How it is interpreted

Average Deposits Balance can be expressed per deposit account or deposit account holder. It is

Table 3 Calculations - Ratio on Foreign Currency Risk

Ratio	2004	2005	2006	2007	2008
Ratio on Foreign Currency Risk (%)					
Absolute Value of Net Foreign Assets	**890,898**	**1,609,986**	**1,635,558**	**2,236,873**	**2,014,850**
÷ Total Equity	**7,424,151**	**13,416,553**	**13,629,654**	**18,640,607**	**16,790,418**
Ratio on Foreign Currency Risk	12.00%	12.00%	12.00%	12.00%	12.00%

[8] See Women's World Banking Financial Management, discussion with investors, due diligence standards of investors, etc.

calculated by dividing the total amount of deposits held by the institution by the number of accounts it manages, or alternatively, the number of account holders it serves.

An appropriate average deposits balance target will depend on an institution's mission and objectives. Trends over time will provide insightful information for managers, particularly as they test different savings products and move into different regions. Ratio results can also be cross-indexed with non-financial data, such as GNI per capita to allow for comparison across countries.

Multiple possible explanations for ratio changes over time require managers to apply qualitative analytics to the interpretation of ratio outcomes to understand why a trend is up or down. In most cases, an institution would hope to see a positive trend, implying clients are increasingly using savings products and have more disposable capital to save. A decreasing trend could indicate savers pulling money out or a bad economy. But there could be explanations for a desirable decreasing trend in average deposits balance, such as high numbers of new account holders or an institution going 'down market'. This contributes to risk management, as a smaller average loan amount indicates a more disperse deposit base which implies more widespread savers/less concentration, and therefore lower risk of deposit flight.

Specific calculation

ProCredit Nic's average deposit account balance declined over 2004-08, as indicated in the calculations.

The decrease is consistent when calculating average balance per depositor and per deposit account, suggesting most depositors hold a single account. Managers may initially be concerned over this decrease as a potential sign the MFI is failing to offer desirable products. However, the total number of deposit accounts grew exponentially, from 5,329 in 2004 to 276,088 in 2008.

We could see this as a highly positive trend if we assume that ProCredit is seeking to provide relevant savings products to a large, low-income client-base. As the savings program matured, and likely cultivated consumer confidence, it was able to attract a larger, relatively less wealthy client-base. These individuals are more inclined to hold smaller deposit balances.

5) Yield on Liquidity and Investments: Efficiency in Managing Cash and Investments

Term	Calculation
Yield on Liquidity and Investments	Financial Revenue from Investments / Average Cash + Average Trade Investments + Average Other Investments

Why this ratio is important

Yield on Liquidity and Investment Ratio indicates the level of returns an institution is generating from its cash holdings and investments averaged over a given period. It provides a meaningful measure of efficiency in managing cash flows and investments.

How it is interpreted

The yield on liquidity and investments is particularly insightful when compared to prevailing local market rates. It reveals how well the MFI generates revenue from its resources outside of its loan portfolio. A higher ratio indicates comparatively higher returns. Benchmarks are best taken at the national level and vary by country and region.

Table 4 Calculations - Average Deposit Balance per Depositor and Deposit account

Ratio	2004	2005	2006	2007	2008
Average Deposits Balance per Depositor					
Total Deposits	**16,317,259**	**24,813,799**	**43,069,463**	**57,606,043**	**74,999,671**
÷ Number of Depositors	5,392	35,471	84,925	121,783	276,088
= Average Deposits Balance per Depositor	3,026	700	507	473	272
Average Deposit Balance per Deposit Account					
Total Deposits	**16,317,259**	**24,813,799**	**43,069,463**	**57,606,043**	**74,999,671**
÷ Number of deposit accounts	5,392	43,175	112,335	158,318	276,088
= Average Deposits Balance per Deposit Account	3,026	575	383	364	272

Specific calculation

ProCredit Nic, on average, earned less than 1 percent on its capital and investments over the period 2004-08. Its highest yield was in 2004, at 0.5 percent.

According to the data, the MFI is holding increasing amounts of cash over the period and decreasing financial revenue from investments. As the organization grows, it is logical it requires more cash on hand. However, that money does not appear to generate income for the organization.

The yield on liquidity and investments ratio was computed for two other Nicaraguan MFIs. Banex earned at least one percent from 2005 through 2008. 2006 was its best year, with a 1.55 percent yield. FDL earned as high as 9.9 percent in one year. This suggests that ProCredit is less efficient in leveraging its liquidity and investments to produce revenue. Ninety day Nicaraguan interest rates were often above 8 percent over that time,[9] providing a theoretical alternative. Even overnight bank rates were generating 2 percent in local currency. The MFI did not appear to be putting its money to work for itself. More investigation into the reason for that may be warranted, particularly into its treasury policies.

6) Savings Liquidity: Institutional Ability to Cover Withdrawals

Term	Calculation
Ratio on Savings Liquidity	Reserves against deposits as required by regulator plus unrestricted cash + undrawn portion
	Total Demand Deposits

Why this ratio is important

Savings Liquidity ratio measures an institution's ability to accommodate withdrawals from deposits. If an MFI does not hold an adequate level of cash to cover large or unanticipated withdrawals from its deposit accounts, it risks a liquidity crunch or even insolvency. The ability to cover sudden, substantive withdrawals is particularly important for MFIs serving clients with lumpy consumption patterns, regular loan cycles, seasonal impacts and/or economic crises.

How it is interpreted

This ratio documents the amount of liquid assets held per unit of deposits. Regulated institutions are generally required to hold a specified minimum of total demand deposits in reserves by their local regulators. MFIs not required to hold reserves against demand deposits should maintain cash in an appropriate amount given deposit levels. Appropriate targets are derived through historical experience of the institution, local operating conditions, and national environmental factors. This ratio supports compliance with international banking standards. The reserve requirement on deposits varies widely across countries – from 2 percent in the Euro zone to 19 percent in Croatia to 80 percent in Jordan. MFIs have tended to maintain levels higher than local banks, to guard against a weaker reputation and provide client confidence.

Specific calculation

The Framework, given its focus on credit, did not account for any savings ratios. The data is not currently presented by MIX Market, but it can

Table 5 Calculations - Yield on Liquidity and Investments

Ratio	2004	2005	2006	2007	2008
Yield on Liquidity and Investments (%)					
Financial revenue from Investments	**44,858**	**46,477**	**38,621**	**67,089**	**15,823**
Cash and cash equivalents	7,002,690	10,405,297	15,139,023	18,233,458	24,898,459
Total trade and receivables	1,893,110	3,497,496	6,060,768	7,751,731	7,387,874
Other investments	0	0	0	0	0
÷ Sum of Cash, Trade and other Investments	**8,895,800**	**13,902,793**	**21,199,791**	**25,985,189**	**32,286,333**
= Yield on Liquidity and Investments	**0.5043%**	**0.3343%**	**0.1822%**	**0.2582%**	**0.0490%**

[9] Central Bank data.

Table 6 Calculations - Ratio on Saving Liquidity

Ratio	2004	2005	2006	2007	2008
Ratio on Savings Liquidity					
Cash and cash equivalents	7,002,690	10,405,297	15,139,023	18,233,458	24,898,459
÷ Total Demand Deposits	**16,317,259**	**24,813,799**	**43,069,463**	**57,606,043**	**74,999,671**
= Ratio on Savings Liquidity	0.429158476	0.419335105	0.351502479	0.316519883	0.33198091

readily be added. For the purposes of this analysis, an approximated measure of savings liquidity was derived by determining the institution's cash and cash equivalents holdings per demand deposit. By this gauge, ProCredit Nic savings liquidity ratio fell from USD$0.43 to USD$0.33 over 2004-08.

At any given time, the institution can accommodate withdrawals between 31 percent and 43 percent of its total demand deposits. As a point of comparison, BANEX's approximated ratio on savings liquidity for the same period using the same analysis ranges between USD 0.61 and USD 1.09. Ratios over USD 1.00 demonstrate enough liquidity to cover all deposits, which may indicate excessive cash. BANEX would be able to accommodate a higher percentage of withdrawals than ProCredit Nic. Economic instability, reputation risk, and other factors influence what appropriate levels are. The comparative analysis is interesting, as is the trend over time. They require local knowledge to consider this performance versus normal or healthy.[10]

7) Effective Financial Expense of Savings: Cost of Interest Payments on Deposits

Term	Calculation
Effective Financial Expense of Savings	Total Interest Expense of Savings
	Average Savings Balance

Why this ratio is important

The Effective Financial Expense of Savings ratio measures how much interest an MFI pays out for savings. It is computed based on the total savings interest expense and the average savings balance between beginning and end of period. This considers the effective interest rate the savings pays. It allows comparison between institutions within a given market and comparison to a market benchmark. It is also an important check between the stated interest rate paid to depositors and the actual interest expense.

How it is interpreted

The numerical value of this ratio has little meaning in and of itself. When weighed against interest expense presented by other options, it allows an institution to evaluate the opportunity cost of its current savings program. If the savings program incurs higher expense than other market opportunities, managers may consider lowering interest rates they offer on deposits or restructuring their program. In assessing appropriate savings offerings, managers must consider product financial viability.

Specific calculation

In 2008, ProCredit Nic reported Effective Financial Expense on Savings Ratio of .05. This is based upon the following calculation.

This implies the MFI paid USD .05 in interest to depositors for each dollar held. To evaluate market appropriateness, management could compare this ratio to interest expense they would incur from alternate activities. Management could track this rate to local prevailing interest rates, to see how well

Table 7 Calculations - Effective Financial Expense of Saving

Ratio	2008
Effective Financial Expense of Savings	
Interest expense on deposits	3,844,198
÷ Average Total Deposits Balance	75,095,936
= Effective Financial Expense on Savings	0.05

[10] These computations are rough proxies only and underscore the need for more accurate, standardized calculation.

their institution does in the marketplace in terms of competition (and also in terms of the next alternative investment choice).

8) Effective Operating Expense of Savings: Cost of Running Savings Program

Term	Calculation
Effective Operating Expense of Savings	Direct and Indirect Operating Expenses Allocated to Savings
	Average Savings Balance

Why this ratio is important

The Effective Operating Expense of Savings Ratio tells an MFI how expensive it is to run its savings program in terms of all non-interest expenditures, including administrative fees and personnel wages. This ratio indicates if an MFI accrues gains or losses from deposit mobilization for costs incurred administering savings.

How it is interpreted

The total cost of the institution's savings program per deposit, or the combined financial and operating expenses, should be compared to other liability and equity options to evaluate the opportunity cost of savings. If the cost relative to other options is too high, the MFI can adjust the interest it pays on deposit accounts to lower its total expenditure on savings, seek to conduct its operations more efficiently, or cut programmatic costs. A high ratio may indicate prohibitively high staff time required for savings. Tracking the ratio over time could measure if adopted operational and process flow changes have shown results. There is not one specific 'right' amount, as savings may be worth offering at a avariety of expense levels. However, it is valuable to differentiate costs by product and track trends to assess performance.

Specific calculation

Currently, most MFIs do not report differentiated operating expenses but rather an aggregate measure of operating expense. Given ProCredit Nic's current reporting on MIX Market, it is not possible to make an exact calculation for this ratio. This ratio will require either some form of activity based costing or fairly reliable allocation of operating expenses. MFIs entering deposit mobilization will need this information for both planning and monitoring purposes.

To provide a mathematical example, an approximation is offered here based on data ProCredit Nic does provide.

An approximation is provided using total operating expenses allocated per unit of savings held, which fell from USD 0.44 to 0.26 over 2004-08. Assuming the savings expense is 40 percent of the total operating budget, ProCredit Nic ratio fell from USD 0.18 to 0.10 over that period. Given 2008 financial expenditure on savings (USD .05) and the estimated operating expenditure on savings (.11), the institution's approximated total expenditure on savings per unit of deposits was 0.16. Such tracking of the performance of savings programs is a new opportunity for managers with these new ratios. As the number of deposit holding institutions increases, understanding their efficiency and effectiveness at that part of the business is increasingly important.

Summary and Road Forward

For the first time since initial publication of the Framework, industry stakeholders are proposing amendments to microfinance financial reporting standards. The drafted eight new ratios and related disclosures presented in this paper seek to increase informative measures of capital adequacy positions and savings. Developing these new ratios relies on

Table 8 Calculations - Effective Operating Expense of Saving

Ratio	2004	2005	2006	2007	2008
Effective Operating Expense of Saving (Assuming 40% of Total Operating Expense)					
Operating expense	7,176,474	9,423,456	14,828,347	18,024,910	19,822,929
÷ Total Demand Deposits	**16,317,259**	**24,825,625**	**43,024,305**	**57,627,752**	**75,095,936**
= Effective Total Operating Expense per Deposit	0.44	0.38	0.34	0.31	0.26
x	0.40	0.40	0.40	0.40	0.40
= Effective Total Operating Expense of Savings	0.18	0.15	0.14	0.13	0.11

additional disclosures around currency exposures and funding costs tracked by product. The ratios were selected based upon input from dozens of practitioners and other industry stakeholders.

Establishing an on-going method for addressing standards in microfinance facilitates regular improvements to reporting. A standards process reduces transaction costs and more efficiently adopts innovations. The SEEP Network, as the Secretariat for the MFI Reporting Standards Initiative, provides these drafts and models to encourage dialogue among industry stakeholders towards a common goal of more accurate and transparent financial reporting standards.

The eight new ratios add significant depth of analysis and new dimensions. The capital adequacy and foreign exchange ratios help better define the well being of the institution and require additional information to do so. As microfinance savings programs are often still in their infancy, it is critical institutions adopt more precise measures of their expenditure on savings to evaluate the opportunity costs of running these programs. This will be critical to adapting, scaling and creating sustainability. Additionally, tracking savings ratios will help enable an MFI to determine an appropriate and optimal spread between the rate paid out on savings, and the rate charged on loan products.

These changes to the Framework move MFIs to more accepted global accounting guidelines, including Basel II and IFRS, and serve as a ready platform to better align national reporting standards. The proposed revisions are intended not only to accommodate current changes in the microfinance industry but also anticipate evolutions the industry will undergo into the future, thus enabling faster growth and better access to affordable capital for people worldwide. Input and feedback from industry stakeholders is encouraged to the MFI Reporting Standards Initiative.