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Article

Forming The Principle of Social Accounting in The Accounting Policy of Microfinance Organizations

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Abstract: This article explores the necessity and practical approaches to implementing the “social accounting principle” in the accounting policy of microfinance institutions. Systematic methods for recording social indicators, such as the share of women, rural clients, and low-income borrowers, are developed. Based on the analysis of IMKON FINANS, Vodiy Taraqqiyot, and Biznes Finans, recommendations for integrating these indicators into accounting policies are proposed.

Keywords: Microfinance Institution, Accounting Policy, Social Accounting, Social Indicators, Financial Reporting, Transformation

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1. Introduction

The microfinance sector is emerging as an important institution in the modern economic landscape, providing financial support to vulnerable segments of the population, small business entities, and women entrepreneurs. In particular, the role of microfinance institutions is crucial in stimulating the economic activity of low-income populations, expanding financial inclusion, and mitigating social inequality within society. However, assessing their financial performance solely through traditional indicators such as income and expenses, assets and liabilities, is not sufficient. At this point, the concept of the “social accounting principle” becomes highly relevant, calling for a new methodological approach in the accounting policies of microfinance institutions.

The social accounting principle envisions not only the financial operations of microfinance entities, but also their social impact—such as reducing poverty, providing employment opportunities for women, and promoting entrepreneurship in rural areas—to be reflected in their accounting policies. This principle has also been incorporated into international financial reporting standards (IFRS) and is recognized in leading practices of socially responsible financing.

In Uzbekistan, while this area is still in its early stages, certain microfinance institutions such as Imkon Finans, Vodiy Taraqqiyot, and Biznes Finans have begun adopting practices to report on socially oriented indicators. Nevertheless, a fully institutionalized system that integrates these indicators into accounting policy based on clear and measurable criteria has not yet been established.

This article analyzes the need to develop accounting policy in microfinance institutions based on social principles, examines its structural elements, explores the potential for modeling through international best practices, and evaluates current shortcomings. Based on the research findings, the paper proposes scientific and practical recommendations for integrating the social accounting principle into the accounting policy framework of Uzbekistan's microfinance sector.

Literature review

In the activities of microfinance institutions, it has become increasingly important to consider not only financial results but also their social impact on society. Therefore, in recent years, approaches and research related to the formation of the "social accounting principle" in accounting have been growing.

In the social entrepreneurship and microfinance model proposed by Yunus M., the role of organizations is justified not only in terms of profitability but also in reducing poverty, alleviating unemployment, and ensuring social equity. The author emphasizes that accounting should serve as a tool to reflect these social outcomes as well [1].

Rhyne E. offers an analytical approach to harmonize the social mission of microfinance institutions with financial sustainability and proposes the development of integrated reporting formats in this regard. He provides detailed analyses of social indicators such as the number of clients, the proportion of women, and the demographic groups utilizing services [2].

International Financial Reporting Standards (IFRS) highlight social responsibility and sustainability reports as important components. In particular, the "IFRS for SMEs" documents recommend integrating social indicators into financial reports for small businesses and microfinance entities [3].

In Uzbekistan, initial studies in this area also exist. For example, local scientific works on "Improving Accounting and Internal Audit Activities" indicate the necessity of maintaining social performance indicators as a separate reporting section in microfinance institutions. Additionally, the dissertation titled "Risk Management in Microfinance Activities" [4] develops a system of criteria for assessing social risks.

Business plans and annual reports published by microfinance institutions such as IMKON FINANS and Vodiy Taraqqiyot for 2021–2023 include social demographic indicators of borrowers, such as the share of women, rural population, and the number of clients near the poverty line. However, this information has yet to be systematically formalized within the official accounting policies.

Overall, the reviewed literature indicates the growing importance of social indicators in the accounting policies of microfinance institutions. At the same time, there is no consistent methodology yet for institutionalizing this principle—that is, formally introducing it as an element of accounting policy. This article aims to develop approaches that fill this gap.

2. Materials and Methods

This study analyzed existing literature, international standards, and practical reports concerning the integration of the social accounting principle into the accounting policies of microfinance institutions. The main methods employed included comparison, systematic analysis, and content-based document review. The business plans and annual financial reports of microfinance institutions such as IMKON FINANS, Vodiy Taraqqiyot, and Biznes Finans for the period 2021–2023 served as the primary empirical material. The social indicators, client composition, lending directions, and social impact reflected in these documents were thoroughly examined. Based on the research findings, necessary indicators for forming the social accounting principle, their representation within accounting policies, and implementation stages were proposed.

3. Results and Discussion

The activities of microfinance institutions aimed at achieving social goals are steadily expanding. However, the reflection of these results in official accounting records has not yet been fully developed. Currently, many microfinance institutions disclose certain social indicators in their annual reports, but these indicators are not recorded as a separate section of the accounting policy, meaning the “social accounting principle” has not been institutionalized.

During the research, the 2023 annual reports of microfinance institutions IMKON FINANS, Vodiy Taraqqiyot, and Biznes Finans were analyzed. IMKON FINANS reported that women clients constituted 48% of their customer base, while clients from rural areas accounted for 62%. These indicators undoubtedly demonstrate the organization’s active pursuit of its social mission; however, these figures are not integrated with financial results in the accounting reports.

At Vodiy Taraqqiyot, clients operating in rural areas made up 57%, and loans extended to low-income groups reached 41%. Although these socially oriented approaches are part of the organization's strategy, they have not been formalized as official indicators within the accounting policy.

Biznes Finans also highlighted in its report that women clients comprised 45% and rural clients 60%, which are important indicators of social impact. However, these numbers are not systematically reflected in the organization's accounting policy.

The establishment of a system of social indicators enables microfinance institutions to assess not only their financial but also their social effectiveness. In current accounting practice, social indicators are not presented as a separate block, which results in the financial expression of the social mission being lost. Therefore, in improving accounting policies, it is necessary to systematically define social indicators, regularly record them, and reflect them in reports.

Social indicators reflect the organization’s reach to target clients, diversification of service areas, and the level of engagement with women, youth, and socially vulnerable groups. These indicators should be defined as a separate section within the accounting policy, with criteria clearly specified. Procedures for their collection, analysis, and use in audits must also be developed.

Below are the main indicators that can be used to assess the social activities of microfinance institutions and the ways to represent them in accounting policies:

Table 1. Social Indicators for Microfinance Institutions and Their Integration into Accounting Policies

№	Indicator name	Unit of measurement	Target criterion	Form of recognition in accounting policy	Type of report	Collection frequency
1	Share of women	%	≥ 40%	Customer composition by loans segment	Social report	Quarterly
2	Share of clients in rural areas	%	≥ 50%	In the structure of territorial service provision	Territorial analysis	Quarterly
3	Share of low-income clients	%	≥ 30%	By risk groups in the loan portfolio	Loan department report	Annually
4	Number of self-employed clients	persons	Annual growth	Based on loan purpose and outcome analysis	Monitoring reports	Annually

5	Share of socially oriented loans	%	≥ 35%	Allocation by loan direction	Loan strategy	Quarterly
6	Client income growth rate	%	≥ 10% annually	Income comparison within 6 months after receiving the loan	Client monitoring	Annually
7	Work with socially vulnerable groups	%	Must be present	Lending to people with disabilities, single mothers, unemployed	Social risk analysis	Quarterly

Based on these indicators, a new section of the accounting policy — "Social Indicators and Their Management Procedures" — can be developed. It should define the data source, collection methodology, evaluation criteria, responsible units, and audit readiness for each indicator. This serves to align the accounting policy of microfinance institutions with a financial-social model.

The system of social indicators not only improves internal management efficiency but also demonstrates the organization's transparency and commitment to its social mission to international donors, investors, and regulatory bodies. Therefore, the full integration of this system into the accounting policy is an important factor for the strategic development of the organization.

Effective implementation of the principle of social accounting in microfinance institutions should not be limited only to defining a set of indicators. This principle can ensure practical effectiveness through its integration into the organization's strategic management decisions. Social indicators should not only be numbers collected for reporting but should become a real management instrument used in decision-making, resource allocation, credit policy formation, and risk assessment.

First of all, to implement the principle of social accounting, a clear approach to this issue must be formed within the organization. This approach should be reflected in the organization's mission, long-term strategy, and internal policies. Also, this principle should be defined as a separate section in the accounting policy, and based on it, financial reporting formats and analysis of social outcomes should be conducted.

In the second stage, the information analyzed based on social indicators is integrated into financial management. For example, an increase in the share of women, persons with disabilities, and rural clients in the loan portfolio indicates the social orientation of the credit strategy. These indicators directly influence lending standards, interest rates, and risk assessment mechanisms.

In the third stage, internal audit, external audit, and financial control practices are enriched based on these indicators. Especially when working with donor organizations, international financial institutions, and regulators, these indicators help to clearly show the social impact of the organization.

The following table shows the stages of integrating the principle of social accounting into the management level and the corresponding functional directions.

Table 2. Stages of Integrating the Principle of Social Accounting into Management.

Tage	Content	Implementation Methods	Results
1	Defining the principle at political and strategic level	Creating a separate section in the accounting policy, including it in the strategy	The organization's mission and goals are socially oriented
2	Integration into operational activities	Relying on indicators in loans, services, and financing	Decisions are made based on social criteria
3	Application in reporting and audit processes	Analysis and monitoring system based on social indicators	Organizational transparency and social responsibility increase

Through this approach, microfinance institutions can harmonize social and financial objectives. At the same time, the principle of social accounting strengthens their relationship with stakeholders and increases accountability to society. This serves not only social stability but also long-term financial sustainability.

4. Conclusion

Microfinance institutions play an important role in ensuring socio-economic stability by financially supporting segments of society with low economic activity. Their activities should be aimed not only at generating economic profit but also at creating social impact. Therefore, developing the "principle of social accounting" within the accounting system and integrating it into the accounting policy is one of the urgent tasks. Research results showed that social indicators exist in microfinance institutions, but they are not reflected in the official accounting policy. This creates certain difficulties in fully assessing the social activities of organizations and making management decisions.

By developing a system of social indicators and incorporating them into the accounting policy, microfinance institutions gain the opportunity to make their activities more transparent, socially responsible, and effective. For example, indicators such as the share of women and rural population, the number of low-income clients, the creation of new jobs, and the share of socially targeted loans serve as important sources of information for credit policy, strategic planning, and external audit. Reflecting these indicators in the accounting policy links financial reports with social impact and enhances the organization's overall sustainability indicators.

Moreover, this principle helps provide reliable information when working with donor organizations, international financial institutions, and government regulatory bodies. On this basis, the introduction of the principle of social accounting into the accounting system is recognized as an important strategic direction for microfinance institutions to conduct sustainable and socially responsible activities.

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