Editorial

Javier M. Flores Moreno

Much has been written and much has been argued about poverty. It is a complex, multidimensional phenomenon. The most widespread definition is associated to limits on the income required to afford a basket of essential goods and services to provide a decent quality of life. However, a broader definition covers multiple different dimensions, including privation, social exclusion and lack of participation. Elements such as access to education and health and the quality of such services, the features of the surroundings in which people live, and limited access to markets, are becoming increasingly important in the definition of poverty.

Economic growth takes a long time to benefit the poor and the effect of demographic growth is much greater among the least well-off. The sum of these two factors makes it enormously difficult to alleviate poverty throughout the world. Quite apart from the technical, conceptual and measurement problems always found in quantifying poverty and quite apart from the subsequent differences that different methodologies throw up, the figures themselves are just overwhelming.

Financial exclusion places an obvious obstacle in the way of development for the poorest people and their communities. Even in environments where an entrepreneurial spirit prevails, imperfect and asymmetric information make it very hard for talented but poor people to access external funds to start or consolidate a business.

Deprived of inclusive financial services, poor people and small businesses have to rely on their own economic resources to seize opportunities within their reach. On the other hand, financial policies that foster the right incentives and help people overcome financial barriers are essential, not just to attain stability, but also for growth, for reducing poverty and for a more equitable distribution of resources and capabilities.

Financial inclusion remains on the “to-do” list in society’s least favoured communities, especially in the emerging countries. Although the improvements already made have meant that the number of people excluded from the financial system has fallen by 20% between 2011 and 2014, there are still two billion people with no access to finance. This is a major obstacle for them in their struggle to improve their living conditions and their development. It prevents them from being able to get out of poverty in many cases.

In some cases, these levels of financial exclusion are due to a poorly-developed financial sector, unable to reach the entire population because of its lack of scale, inefficiency, poor corporate governance models and difficulties in accessing funding. But in other contexts, even where a more highly developed financial sector exists; there are many people who simply cannot access its services. The geographic dispersion of poor communities, the considerable size of the informal sector of the economy, the existence of precarious jobs with low and volatile wages, the absence of guarantees or collateral and the lack of a financial culture are just some of the causes underlying this problem.

In 2007, BBVA created the BBVA Microfinance Foundation as part of its corporate social responsibility policy. It is a non-profit entity whose mission is to foster the sustainable and inclusive economic and

social development of the least well-off sections of society through Responsible Productive Finance. We put small-scale economically vulnerable entrepreneurs at the centre of our business, providing them with a full range of financial products and services together with technical assistance and training, with the aim of helping them to success in the long term.

The cornerstone of this model is individualised knowledge of our customers, their circumstances and the real situation of their home or their business. In each case, the model takes into account their profiles and vulnerabilities in order to support entrepreneurs to sustainably generate increasing revenues. Not only do these have an impact on their welfare and on their personal development, but also, the final outcome is a long-term relationship in which customers know that the institution will always be there for them, accompanying them in their needs, both present and future.

This is relationship banking. The key is being able to recognise the potential to generate wealth (albeit on a small scale) in entrepreneurs and in their projects. Such potential does not only manifest itself through the more conventional tangible quantifiers, but also –and to a large extent– through intangible attributes, such as intelligence, imagination, commitment, willingness to pay, perseverance, resilience, empowerment, sense of responsibility, etc.

The BBVA Microfinance Foundation currently supports 1.7m entrepreneurs in seven countries, 84% of whom belong to economically highly vulnerable sectors of the population; 61% are female entrepreneurs, in many cases, heads of household. The aggregate amount paid out in productive loans since 2007 amounts to USD 7bn, with a direct impact on over 6.7m people.

The results we have seen so far are very promising. Customers that remain with the Foundation entities, see their sales grow at an annual rate of 15%, their surpluses by 18% and their assets by 28%. Our metrics indicate that 30% of the customers who joined the entity as poor (according to the ECLAC definition) had climbed out of this category when we measured their situation two years later. And although they are exposed to multiple risks that could drag them back into poverty, we have seen that the longer they remain within the system, the less vulnerable and the more resilient their economic situation becomes.

These results reinforce the motivation that drove us to create the BBVA Microfinance Foundation: the conviction that the financial system plays an important role in both the growth of the economy and in improving people’s living conditions, irrespective of the social or economic strata to which they belong.

Over the last eight years, we have seen microfinance takes enormous strides forward, driven by an ever-more formalised and professional sector. Over 90% of successful experiences coincide with a trend towards formal microfinance institutions, most of them regulated. The success stories of institutions that made the transition from NGOs to regulated banks is characterised by a relentless commitment to the institution’s mission; a sound corporate governance structure that eliminates problems of agency, and excellent risk management and control.

At the same time, the regulatory frameworks for microfinance have also progressed. In many cases, recognising the reality of the wide range of institutional models, they address them by different kinds of legislation for banks and co-operatives and in some cases draw up specifically targeted microfinance legislation.

The challenges imposed by high transformation costs in relation to the size of microfinance loan transactions has required the sector to migrate towards distribution models that use alternative channels of distribution and processes to the conventional ones. By involving the active co-operation of third-parties in the operation, we have been able to get closer to our customers, who are not usually living in or even close to sizeable population clusters, especially those living in rural areas, where many of the excluded segments are found.

The results show that the benefits of these new services far outweigh the risks. This new environment does however, require the system to strike a healthy balance between allowing the kind of innovations that facilitate and accelerate access to financial services, while at the same time, establishing the necessary controls and preserving an optimum level of protection for micro-borrowers.

Regulation has been heading in this direction. The latest public-policy actions to foster financial inclusion in many Latin-American countries are aimed at encouraging the use of these ever-more simple channels and processes to bring in a broader spectrum of the disadvantaged segments of society, not just fostering entrepreneurship by providing access to credit, but also fostering savings, and considerably reducing transaction costs.

Regulation and supervision have progressed in promoting an environment for financial inclusion. By placing top priority on this debate –it is now squarely on the G20 agenda– it has been possible to improve the treatment of financial inclusion in standards, guidelines and assessments throughout the financial sector. The objective is to create a framework for action in which financial relations and interactions can occur with an appropriate control of the risks faced by microfinance institutions, and adequate protection of customers, while preserving the stability of the system and promoting market efficiency.

All these components are the mainstays of the modern regulatory framework that is being built around the sector: boosting financial inclusion, but also taking care of the entities' financial stability and sustainability, ensuring good corporate governance and suitable management of different risks, and requiring the institutions to be more transparent. This whole process has enabled a set of new stakeholders to come into the sector in recent years, bringing innovation and new ways of participating in both the equity and the funding of these institutions.

The recent global financial crisis has given way to the construction of a risk-based global framework, in which capital requirements have become more sophisticated, with a strong macro-prudential focus and requiring anti-cyclical capital provisions. The spirit of these reforms has been incorporated into the changing regulation of the sector, and nowadays the principle of eliminating regulatory arbitrage prevails in these markets.

Moreover, the financial sector is undergoing a major transformation. The digital divide is narrowing. This is the foundation on which much of the design of future banking is being built, with a broad range of different digital technology co-existing in harmony: mobile devices, social media, big data and process digitalisation. Combined, all of these have the power to transform the market for customers and for all other stakeholders in the industry.

The financial entities will have to reconfigure their operations, forging new kinds of collaboration between themselves and with other sectors. New players will come into the game, some with very different business models. Accessibility is the key difference in this new wave of technological change. It will be driven by lower relative costs than in previous cycles.

The impact will be greater than in previous windows of opportunity, because of the changes in the way people save, raise finance and access credit, together with much greater operational efficiency, which is especially important in small transactions of the kind involved in microfinance.

The microfinance sector is and will be swept along by these trends in the financial sector. The main challenge is how to attain a virtuous combination between the new proposals and the possibilities springing from technology and digital transformation, and the model developed by microfinance over many years of learning. We have to be focused on reaching out to where these vulnerable customers live and work. We want a one-to-one understanding of their requirements and their homes and businesses, so that we can provide personalised attention to cover their real needs. This will benefit millions of people.

Digital transformation, with all its potential, if managed in the right way, will represent a strategic underpinning of incalculable value for the microfinance model, which has always placed the customer at the heart of its activity:

It will mean greater responsiveness, flexibility and convenience. It will radically enhance the microfinance institutions' capacity to gather information and operate more efficiently. Thus the potential to collect information, analyse it and use it to take decisions can be deployed in the homes of customers and placed at their service.
At the same time, it has the potential to generate greater interaction with customers, so that customers and institutions will be able to have more frequent contact and more intense engagement.
More efficient use of different channels will make transactions more convenient and more efficient.
At the same time, technology provides the possibility of greater and better controls and monitoring of the different types of risk involved in microfinance transactions.
All this will be accompanied by a radical improvement in the efficiency of front- and back-office processes.
Greater efficiency will make it more feasible to reach out to the poorest communities and sectors that are not currently accessible.

We are moving towards a future in which customers will be able to choose their touch-points and the transactions they wish to engage in at their own convenience, and microfinance institutions will be able to overhaul their conception of traditional banking branches. They will have much lighter branch-network structures as they evolve towards sending microfinance executives far out into the field with mobile technology to deploy this greater flexibility and responsiveness to build up a system providing much better, more agile service to customers, with lower transaction costs and enhanced, more efficient supervision systems.

Regulatory frameworks will have to acknowledge these tendencies and lines of evolution, permitting innovations to generate the desired impact. But they will also have to guarantee that new players that may move into the game are also subject to a prudential oversight guaranteeing a level playing field for all. This will benefit the large groups of the population yet to be serviced, and ensure the sector is sustainable for the long-term future.

The digital and information revolution and the way that change is speeding up are making it possible to incorporate new dimensions of customer insight. It is becoming easier to adapt to the needs of low-income people throughout their life cycles, by drilling down deeper into their behavioural patterns and, consequently, into the classical models of risk assessment. The enormous transformation in the technology environment, well managed, will allow successful institutions to construct systems that operate with lower costs, are more inclusive and reach out to segments currently still outside the scope of the microfinance industry. In the BBVA Microfinance Foundation and in all the institutions within our group, we have been busily initiating this innovative change for some time now, and we can look towards the future with high hopes, recognising our responsibility by redoubling our unwavering commitment to our mission.

We provide a global perspective of the most relevant regulations on microfinance and corporate governance

---

Editorial Board

Editorial Board

New Instructions Regarding Data Base Registration

The Colombian government, through its industry and commercesupervisor, Superintendencia de Industria y Comercio (SIC), presents the steps that those responsible for personal data under Law 1581/2012 (Habeas Data Law) must take to register data bases regulated by that law. The items to be registered include the type of information stored; measures for securing the data; the origin of personal data: whether the information has been internationally assigned, transferred or transmitted; and reports with updates on matters such as complaints, security incidents, etc.

It also defines the procedures and dates for registering data bases according to the tax identification number of each company responsible for processing personal data. All information registered must be updated in the first quarter each year, as of 2018.

These postulates are contained in SIC Circular 002/2015. Their aim is to give the general public security about how their personal data are being processed by companies in both the public and the private sectors and to avoid indiscriminate disclosure to the market.

Unification of Reporting on Financial Costs

The Colombian Government has established new rules regarding the Standard Total Value of financial products. The concept of this standard value, known in Colombia as the VTU was created under Law 1748/2014, (analysed in Progreso 2, in line with Resolution on transparency of information, in Progreso 1) which obliged financial institutions to use a standard methodology to inform their customers of the real and the potential financial costs of their products on the market. The points regulated include the division of the VTU over lending-side transactions and savings-side transactions.

The standard value of financial costs on lending transactions (VTUA) must be expressed both as a percentage and as a number of Colombian pesos. The value includes the instalments, insurance premiums, fees and any other such costs that a potential customer would have to pay to the financial institution during the life of the loan, that are inherent or associated to the borrower's liabilities on the transaction.

The VTU must be given both to current customers and potential customers and is linked to the annual reporting on costs for customers that is mandatory for institutions under the oversight of the Colombian supervisor, Superintendencia Financiera de Colombia.

The Standard Total Value as part of Financial Education

This way of giving information forms part of the Colombian Government's financial education

programme. It started the programme some years back to try to keep financial consumer's informed of the true financial costs of the products that they acquire in the financial system.

New Rules for the Filing of Real-Estate Collateral

The Colombian government enacted Decree 1835/2015 to provide greater clarity regarding the filing of real-estate collateral as a way of making it easier for small and medium-sized enterprises and entrepreneurs to access funding. The new regulations include:

A glossary of the terms applicable to the filing of real-estate collateral, such as borrower, guaranteed, online file, registry form, etc.
Greater clarity about how the real-estate collateral registry works, allocating serial numbers, providing certificates and copies of filing documents, etc.
Round-the–clock, open access to the real-estate collateral registry (24/7).
Definition of he requirements for filing real-estate collateral in the system. Filers must create a username, and pay the registration rights and the certification of the form.
Definition of the term during which the collateral guarantee will remain in force.
Minimum information to be provided to the system for filing real-estate collateral.

A more simple system for filing real-estate collateral

The decree clears up queries from the market about the application of Real-Estate Collateral Law 1676/2013, analysed in Progreso 1, as the system can only be effective if people find it easy to use and actively file their collateral in the registry it created.

Once the filing system works correctly, more people and small businesses will be able to use their real-estate as collateral to obtain credit. This should encourage entrepreneurs to take advantage of more financial opportunities in the country.

In Progreso 1, we also commented the new rules regarding the mortgaging of movable assets in Panama and Peru.

New Concepts Associated to Agricultural Microcredit

The National Farm Credit Commission (Comisión Nacional de Crédito Agropecuario) has changed the rules on microlending to farmers, who can now access credit with discounts from the farm-financing fund, Fondo para el Financiamiento del Sector Agropecuario (FINAGRO, introduced in Progreso 4). The key change is the inclusion of voluntary microinsurance premiums among the items eligible for such

loans. This will help small-scale farmers to cover the risks to which they are exposed in their microbusinesses and in their lives, by giving them access to funding for life insurance, crop and livestock insurance, damage insurance, property insurance and funeral insurance, etc.

Better conditions for placement of microinsurance

This also helps the microfinance entities to place microinsurance in the market, which both boosts the entities' product turnover and also enables their microborrowers, an especially vulnerable group in the population, to lower their exposure to risks.

Know Your Customer Requirements

Colombia's financial watchdog, Superintendencia Financiera, with oversight for the financial industry in Colombia, published External Circular 034/2015, containing the Know Your Customer requirements for lending small amounts and microinsurance products, bringing them into line with those for online deposits in Colombia. The most relevant changes are:

The already existing Know Your Customer procedures for opening online savings accounts are now activated for small credit transactions and microinsurance. Thus it is now sufficient to take the name, ID number and issue date of the ID document to provide the customer with such products.
These products no longer require a mandatory investigation into the customer's business activity, or a declaration of incoming and outgoing payment volumes or the customer's understanding of finance; nor are they subject to the rules on publicly exposed persons.
These exceptions are valid providing the total credit facility remains below 2 PLMWs or Prevailing Legal Monthly Minimum Wages (COP $1,288.700 = approx. USD $430) and the term is less than 36 months. For microinsurance, the requirement is that the insured value is not over $86,987.250 = approx. USD $29,000.) and the monthly premium is not greater than one ninth of 1 PLMMW (COP $72,000 = approx. USD $24.).

Greater access to microfinance products

In line with the Decree 2654 about low-volume consumer credit, analyised in Progreso 2,This set of rules expands the range of people who can take out microfinance products, facilitating access to the financial industry and providing more banking services to the general public.

Microinsurance: protecting

entrepreneurs

The Banking, Insurance and Pension-Fund Supervisor (SBS) has published this bill to improve the current definition of “microinsurance” contained in the Microinsurance Policy Regulation approved under SBS Resolution 14283/2009. The new definition is *“insurance accessible to low-income individuals and small traders to cover personal and/or material risks to which they may be subject, by proportional payments of the premium in line with the risks covered by the policy (...)”*

The bill makes the definition of the sales channels more flexible, in order to increase the availability of microinsurance products. It eliminates the requirement to provide a list of establishments where microinsurance policies can be taken out.

Sale of policies

The main changes proposed by the SBS for the sales and marketing of microinsurance products are: *

(i) The companies may use remote sales channels to promote, offer and sell microinsurance. In such cases, the person taking out the insurance or the insured party must be informed of their right to change their mind and retract the microinsurance contract under the legally allowed conditions.

(ii) Companies must implement policies and procedures to select their sales agents.

(iii) Microinsurance can be sold over ATMs belonging to correspondents in the financial system and e-money issuers.

(iv) Training must be given to sales agents every year, or whenever they start to sell a new microinsurance product.

(v) The deadline for reporting the problem and payment of indemnity will be shorter than for conventional insurance.

(vi) Companies are given 90 days once the Bill is enacted, to bring their microinsurance policies into compliance.

Intervention and liquidation of financial institutions

The Council of State, the supreme court for litigation against the State, handed down this ruling on 26th February 2015, analysing whether the State is responsible for a financial institution going into liquidation and consequently for the savings that its depositors lose in such process. It recognises that the State has oversight of the financial industry, as it engages in an activity of public interest.

The State cannot control market conditions

However, it finds the the State cannot be held responsible for adverse conditions in the market that lead to bankruptcy of a financial institution, and therefore cannot be deemed liable for the savings that individuals lose in such bankruptcy. The State must nonetheless exercise its powers to intervene in such financial institutions in a timely and adequate manner, in order to avoid bankruptcy of companies legally engaged in taking customer deposits, insofar as possible.

In this case, the court found that the Colombian State showed due diligence in avoiding the liquidation of Banco Selfin, S.A., ordering it to boost its capital ratios, drawing up a special plan with the institution, and then taking it over. The State was consequently exonerated from paying the loss and damages claimed by the plaintiff.

Improving customer care in the finance industry

On 1st October the Banking, Insurance and Pension-Fund Supervisor (SBS) published the Financial Customer Care Circular, aiming to improve the treatment of customers in the finance industry. To this end, it made the reporting procedures and obligations more flexible, repealing Circular G-176/2014 (analysed in Progreso 2) and its amending regulations and G-146/2009 and its amending regulations.

Principal changes

The major changes in this Circular are:
(i) Standardisation of the complaints attention system. Henceforth, requests, queries and complaints will be kept in the same format, which must be made available to the financial customers.
(ii) Companies must give their financial customers access to at least the following touchpoints through which to make their voice heard: a) their public branch network; b) a dedicated telephone number at which to lodge complaints; c) an e-mail address set up by the company and/or its website, at which to lodge complaints and to receive the response.
(iii) The quarterly reports that companies must submit to the SBS will now contain more information fields than before. They will give the number of complaints received, the number of complaints resolved (broken down to the resolutions in favour of the customer and the resolutions in favour of the company), the average time spent on the complaint resolution, the products and services causing the complaints, the number of complaints still being processed and the total number of transactions in the company over the previous quarter.

Election and Appointment of Directors in State-owned Peruvian

microfinance entities

The Peruvian supervisor for banking, insurance and pension funds (SBS) has set out to clarify the requirements for the debarment, recruitment, appointment and severance procedures for directors on the Peruvian savings banks or Cajas Municipales de Ahorro y Crédito (known as “CMAC”). It has drawn up a new regulation for the election of Directors to the CMAC boards.

The new regulation establishes that the CMAC board of directors will comprise up to seven members representing: (i) the majority of the Municipal Council[*]: 2 representatives, (ii) the minority of the Municipal Council[**]: 1 representative, (iii) COFIDE or Banco de la Nación: 1 representative, (iv) the Chamber of Commerce: 1 representative, (v) the Clergy: 1 representative; and, (vi) small traders and producers working within the region served by the CMAC[***]: 1 representative.

The election or re-election of the CMAC Directors will be a two-step process: (i) Designation; and, (ii) Appointment.

Designation

This first stage in the election or re-election process starts when the authorised body in the institution designating its representative simultaneously submits an official communication, with signatures certified by a notary public, to the CMAC Management and a copy to the supervisor (the SBS), with the name of the person it wishes to represent it on the CMAC board. The same body in the institution designating its representative will also copy this communication to the Internal Audit Unit of the CMAC, appending documentation to prove the technical and moral suitability of the person designated and, where appropriate, a notarised copy of the resolution to designate this person, including the notice of meeting and the quorum, so that the Internal Audit Unit can issue the official verification report on the documentation to the CMAC Management.

The regulation establishes that the authorised bodies of the institution designating its representative are responsible for verifying that the potential director complies with the requirements of such position and that the potential director is not subject to any impediment that may make him or her ineligible, as explained below.

Appointment

This second stage in the election or re-election process comprises the formalisation of the designation of the CMAC director through the following steps:

Verification of the documentation by the Internal Audit Unit of the CMAC: The CMAC’s Internal Audit Unit has a maximum of fifteen days after receiving the documentation accrediting the technical suitability of the person designate to draw up and submit a report to the CMAC Management regarding: (i) whether the proposed director complies with the necessary requirements; and, (ii) whether the proposed directors is affected by the impediments described below.
Appointment of the director by the Municipal Council: When the Internal Audit Unit report is in favour of appointment, the CMAC Management has a maximum of 15 days to submit an official communication to the Municipal Council, which then has 15 days to formalise the appointment of the director designated.
Presumption of formalisation of the director‘s appointment: Should the Municipal Council fail to formalise the appointment within the 15-day deadline, the appointment of the director will be presumed to have been formalised.

Impediments

The above notwithstanding, candidates for a seat on a CMAC board must comply with the requirements of technical and moral suitability for the performance of such a position in an adequate manner, and must not be subject to the impediments listed in article 81 of the General Law 26702 of the Financial System and the Insurance System and Organic Law of the Banking, Insurance and Pension Fund Supervisor. The following are also impediments to eligibility for such a position:

The candidate may not have negative background references regarding his/her management skills or have been fined for any administrative or criminal infraction or have been involved in other acts suggesting lack of honesty or unsuitable conduct that could jeopardise public confidence or any other actions that may suggest lack or moral suitability
Demonstrate technical suitability, by accrediting:
A school-leaving certificate or professional qualification in economics, finance, accounting, engineering, law or administration. The candidate must also have at least three years' experience in positions of senior management or directorships over the previous eight years in companies with annual sales of over 850 tax units (UIT)
The candidate must also have at least three years' experience in positions of senior management or directorships over the previous eight years in companies in or related to the financial industry.

Term of office

The regulation establishes that the director's term of office will be a year when representing the Municipal Council (Majority or Minority list) and two years for other directors. The directors may be re-elected. Should a seat become vacant, the person replacing the previous director must come from the same institution and occupy the position for the remainder of the term left to serve. The incoming director may be re-elected at the end of that term.

An important aspect of the new regulation is that the duration of the CMAC directors' terms of office is now independent of any changes in the authorities or legal representatives that may take place in the designating entities or in the Municipal Council.

Vacancies

Seats on the CMAC board will only be vacated by death, resignation, revocation by the designating entity or removal due to impediments that may have existed before appointment or arisen subsequent to appointment.

*Majority of the Council: group of counsellors on the election list of the Mayor.

**Minority of the Council: group of counsellors not on the election list of the Mayor.

*** Representative of small traders and producers: appointed by the most representative association within the region served by the CMAC, duly ratified.

Bill for the regulation of mass data processing

Bill 134/2015 studies the implementation of a set of rules applicable to mass data processing. These have a tangential bearing on the habeas data regulations included in Laws 1266/2008 and 1581/2012. It includes the following points:

• It provides a glossary of items related to the regulations, such as Information Operator, Information Beneficiary, etc.
• It defines mass data transactions as an activity of general interest.
• It sets up a registry for companies whose business is mass data processing, explaining the requirements for engaging in such business.
• The duties and responsibilities of information operators, mainly with respect to reporting and safe-keeping of the data processed.
• How the information processed should be identified.
• The Industry & Commerce Supervisor has powers of oversight for these companies.

Mass data processing as part of globalisation

This bill aims to bring legal order to the processing of massive volumes of online data that have proliferated so rapidly in recent years and are used for all sorts of different studies, especially market research. It also places further responsibilities on those processing and using financial information, above all on financial institutions, which must now perform their business in compliance with three sets of regulations. They are subject to the Financial Habeas Data Law (Law 1266/2008), the General Habeas Data Law (Law 1581/2012) and this bill on mass data processing.

Free handling of bank deposits

The legislative is trying to make financial institutions offer a safe, efficient and free means to customers wishing to withdraw their money. These could include a debit card or a savings passbook. It also obliges the financial supervisor to supervise compliance with this obligation and to fast-track complaints about it from financial consumers.

The legislative is trying to make financial institutions offer a safe, efficient and free means to customers wishing to withdraw their money. These could include a debit card or a savings passbook. It also obliges the financial supervisor to supervise compliance with this obligation and to fast-track complaints about it from financial consumers.

Congress studies the reduction of financial costs

This initiative is linked to others on similar matters that the Colombian congress has been studying in order to bring down the cost of finance in the financial system*.

*Bill 036/2014, Bill 113/2015 and Bill 119/2015.

Reform of the financial habeas data regulations

The Congress is studying Bill 095/2015 to reform Law 1266/2008 on the handling of financial, credit, trade and services information and information from other countries (Financial Habeas Data Law). It

would amend the following items:

• It will reduce the maximum time that a negative credit-bureau report would remain valid from 4 to 2 years once the debt is paid off, maintaining it at 5 years when the debt is not fully paid off.
• The payment of obligations worth less than one PLMW or Prevailing Legal Monthly Minimum Wage (COP $644,350 = approx. USD $215) will generate immediate elimination of the negative report.
• Withdrawal of the negative report will immediately trigger an improvement in the customer's credit rating.
• Querying the information at the risk bureaus will not bring down the holder's credit rating. At present, too many queries against the information at the risk bureaus can impact the score for the rating. This change is also being sought under Bill 066/2015 before the Chamber of Representatives.
• Special deadlines are established for eliminating the negative report of borrowers who pay their debts once the regulation comes into force.

The negative report as barrier preventing access to credit

This regulation aims to help people who may have failed to comply with their obligations to the financial system to avoid having their access to credit cut off for too long.

International collection of personal data

The Colombian Congress, recognising the impact that globalisation has on the processing of personal data, under Senate Bill 106/2015, aims to expand the application of Law 1581/2012 regarding the habeas data regulations in Colombia.

A data protection law with extra-territorial reach

This law makes companies, organisations and people that are neither resident nor domiciled in the Republic of Colombia liable for personal data they collect, store, use, spread or in general process over any medium on persons resident, domiciled or located in the national territory of the Republic of Colombia.

It also gives its industry and commerce supervisor, Superintendencia de Industria y Comercio, powers to investigate and fine breaches of the rules established under the law.

Corporate governance and integrated risk management in

companies within the Peruvian Financial System

The Peruvian supervisor for banking, insurance and pension funds has put out a public consultation document, based on international standards and best practices, for the regulation of *Corporate Governance and integrated risk management.* The draft aims to amend prevailing regulations to encourage better corporate government and risk management in the companies supervised within the Peruvian financial system.

The draft regulation establishes the supervisor's criteria regarding corporate governance, independent directors, board committees, the remuneration system, stakeholders and the management of conflicts of interest. The supervisor also deals with aspects of integrated risk management in order to improve the performance and accountability of the companies under its supervision.

The bill covers the following matters, which were not dealt with in earlier regulations:

Corporate governance

1.The draft incorporates a definition of corporate governance and establishes the attributes and responsibilities of the general meeting of shareholders, the board of directors and the senior management; a similar practice followed by the Monetary Board of the Dominican Republic in the approval of the Regulation on Corporate Governance.

Companies are obliged to draw up regulations for their general meeting and their board of directors, setting forth the necessary policies and procedures to ensure they work correctly, for example: (i) procedures for convening the obligatory Annual General Meeting of shareholders; (ii) procedures for representation and proxies at General Meetings; (iii) policies for electing the members of the board and setting their remuneration; (iv) procedures for preventing, detecting, managing and revealing conflicts of interest; (v) succession planning; (vi) criteria for holding non-presential board meetings; (vii) criteria for technical and moral suitability when recruiting senior managers and others.

2. It includes more detailed rules regarding the participation of independent directors on the board, stating that the companies under supervision in the Peruvian financial system must at all times have at least two independent directors. These directors may not give their vote or proxy to any non-independent director.

3. It also gives a definition of stakeholders, based on international standards approved by the Bank of International Settlements (BIS), the International Association of Insurance Supervisors (IAIS) and the International Organization of Pension Supervisors (IOPS); and the Peruvian principles of good governance, Code of Good Corporate for Peruvian Corporations approved by its securities market commission, as discussed in Progreso 1.

4. It establishes that companies in the financial system must set up a board remuneration committee to propose the remuneration system for board members and management. The remuneration system must be in line with the company's risk appetite and avoid conflicts of interest.

5. The draft regulation establishes that the audit committee must be chaired by an independent director; and that the chair of the risks committee may not chair any other board committee.

Integrated risk management

1.The draft regulation makes it clear that integrated risk management must bring the company's decision-making processes into line with its risk appetite system. This will mean considering the company's risk appetite, risk capacity and risk ceiling, with reference to the international standards set forth by the Bank for International Settlements (BIS) and the Financial Stability Board (FSB).

2.Further details are given regarding outsourcing of one or more functions for managing risks and regulatory compliance.

3.The duties of Regulatory Compliance are explained in order to distinguish between such compliance and the work done by the internal audit unit.

The draft regulation is currently being reviewed by the financial supervisor, the SBS, after receiving feedback from public consultation. It is expected to be published and to come into force in the middle of 2016.

Developments in corporate governance in the Dominican Republic

Paloma del Val Tolosana, Secretary of the Board of Trustees of FMBBVA

On 14th September, the Monetary Board of the Dominican Republic published the new Corporate Governance regulation, amending the earlier Corporate Governance regulation that dated back to 2007. The second issue of *Progreso* discussed various aspects of the draft of this regulation.

It clearly represents progress, as from now on the minimum principles and guidelines are based on international standards and will serve to support financial intermediaries in their plans to adopt sounder corporate governance practices. The

implementation of such practices, however, will depend on the nature, size, complexity and risk profile of each business.

The Regulation is applicable to entities reporting as Multiple Banks, Savings & Loans Banks, Credit Corporations, Savings & Loans Associations, and also the Banco Nacional de Fomento para la Vivienda y la Producción, a state-run bank for housing and production.

It defines corporate governance as a set of minimum standards and principles regulating the design,

integration and interaction between the Board of Directors and the Senior Management, shareholders, employees, related parties and other stakeholders. Good governance provides conflict management, management-risk mitigation and helps companies to achieve a more robust organisational system.

Compared to the previous regime, it establishes tougher rules for board members to be considered independent, requiring minimum proof of non-involvement with the institution and its shareholders over at least two years, during which such directors may not have received any remuneration from the institution. It also says that independent directors may be elected from among shareholders with less than 3% of the total share capital. However, it increases the maximum number of internal directors from one (in the earlier regulation) to two.

It introduces two best practices from international corporate governance standards, namely: (i) training programmes for directors, in order to keep their skills up to date so that they can meet the demands of their position, and; (ii) an assessment of the Board of Directors' performance.

The regulation is strict about the training programmes, requiring that the Board approve and submit their director-training plan to the supervisor each year. This plan must deal with subject matter regarding risks associated to financial activity, the mechanisms for assessing the results obtained and a preliminary timeline for the training sessions.

It incorporates criteria such as time of service, the committees on which each director sits and their contribution to board business in the now mandatory assessment of the board's performance. However, it does not include other matters recommended from international best practices, such as the methodology to be applied, the engagement of independent experts every few years to perform an external assessment, or the action plan that should ensue from the assessment, which should be approved and monitored by the Board itself.

The new regulation contains significant improvements in business transparency. It defines a Code of Conduct and Ethics which must be widely disseminated throughout the institution, and which must contain a clear description of the corporate values and rules with respect to conflicts of interest, the prohibition against working with competing companies, etc.

It does not regulate directors' remuneration, but simply establishes that this should reflect best international practices, and be adjusted to reduce unreasonable incentives to take risks that are not in the interest of the institution.

Another important development is considering the risk function as an essential area of control over the risk appetite and tolerance level approved by the Board, and of mitigation for the risks inherent to the institution's activity. This function must now always be headed by a chief risk officer (CRO).

In line with this, it establishes that an Integrated Risk Management Committee should be set up to ensure that the institution is aligned to the targets and strategies it has defined for itself.

The document gives detailed descriptions of the functions of the Audit Committee and the Appointments & Remuneration Committee, thereby making it mandatory for them to provide the three control functions in the institutions according to the principles of good governance.

It devotes an entire chapter to the regulation of the Senior Management. The most important change in that it requires internal management committees be set up: the Executive Committee, the Compliance Committee, and the Credit and Technology Committees.

The new regulation represents a substantial step forward, both in the terminology used and in the inclusion of practices in line with the latest corporate governance recommendations emanating from international circles over recent years (some of them already analysed in Progreso, such as the colombian New Country Code, the Code of good governance for publicly traded companies of Spain or

the japanese Code of Corporate Governance). The financial institutions now face some hard work as they use the 90-day transition period to ensure that their rules are mainstreamed down throughout the entire organisation so that good governance becomes embedded in their culture.

Information obligations and classification of financial products

The main aim of the various regulations approved over recent years in Europe and Spain regarding the protection of financial customers has been to guarantee that customers are given true, sufficient and understandable information on the products and services they are offered, so that they can form a grounded opinion of their value and understand the risks associated to them.

Reality shows, however, that such information is still insufficient and presented in a confusing or incomplete manner, making it hard to compare different products with enough understanding to be able to reach informed decisions.

The Spanish Ministry of the Economy and Competitiveness has established this ministerial order in order to establish a standardised system of information and classification for all investment and savings products, providing a useful tool and giving financial customers and potential customers a suitable level of protection.

Transversal, simple and standard

The document is scattered with references to the principles of transversality, simplicity and standardisation.

Information must be *transversal,* so that the information and classification will be prepared for all financial products (ie, all banking products, insurance and securities and pension plans);
It must be *simple,* so that it can help customers and potential customers to compare and understand products;
It must be *standardised* so that the minimum information required will be drawn up and represented in one single standard format.

Scope

The order is applicable to (i) financial instruments covered by article 2.1 of the law on securities markets, the TRLMV (analysed in this issue)*; (ii) bank deposits (sight, savings and term accounts); (iii) life insurance products intended for saving (including insured retirement schemes); and (iv) individual and group pension plans. It excludes certain financial products covered in article 2.2.

Its scope of application includes Spanish financial institutions that are likely to market such products, and foreign institutions that do so on Spanish territory through branches, agents or under the free regime for service provision.

However, the provisions in the order will only apply for the marketing of products to non-professional customers. Companies providing discretionary and individualised portfolio services are excluded, as they take investment decisions on the behalf of their customers.

Risk indicator

The institutions must give customers and potential customers information on the *risk indicator* of the financial product, which must always be updated for the moment of the product's delivery, classifying this risk into one of the six classes defined in article 5 of the order

The rating on the financial product issued by External Rating Agencies will be taken into account when classifying the risk. These are divided into two levels: Level 1 (equivalent to BBB+ or higher) and Level 2 (equivalent to BBB- or BBB).

Liquidity and complexity alert

Apart from the risk indicator, when providing information, the institutions must include information on possible liquidity limits and possible risks of early sale of the financial product.

It must also flag the complexity of the financial products, when they are complex products according to the definition in article 9 of the order, which says: *"A financial product that is not simple and may be difficult to understand."*

Information and representation

The information given to customers and potential customers must be included in the advertising communication on the products and in the general description of the nature and risks of the product that are given before the customer takes such products out.

Both the risk indicator and the liquidity alerts and, where applicable, the complexity alerts will be represented in graphics displayed in line with the figures and indications included in the appendix.

**Consolidated Text of the Securities Market Law*

Clause on abusive default interest rates on unsecured loans

The Supreme Court (Tribunal Supremo) handed down this ruling in an appeal case regarding the abusive nature of the clause in an unsecured loan contract allowing un-negotiated arrears interest rates. The Civil Chamber had already ruled on this matter in its Ruling 265/2015, 22 April, and the Supreme Court upheld its arguments.

The litigation regarded whether or not the clause fixing the arrears interest rate at 20% above the applicable remuneration interest rate was abusive or not. Taking into account that the annual remuneration interest rate was 9%, the arrears rate would, initially, be equivalent to 29% and after the first review, could be over 30%.

The Chamber considered an arrears interest rate to be abusive if it entailed an increase of over 2% above the remuneration interest rate negotiated for an unsecured loan. In line with the doctrine established by the European Court of Justice, the Chamber resolved to declare the clause null and void, allowing the rest of the loan contract to remain in force with no other change.

Abusive nature of the arrears interest rate

When assessing the abusive nature of the clause, the ruling refers to the jurisprudence laid down by the ECJ and the Community directive 1993/13 EEC, which establishes the concept of abusiveness and the consequences of recognising such abusiveness. Thus, any clause leading to a significant imbalance between the rights and obligations of the parties to a contract, to the detriment of the consumer, can be considered to be abusive. Consequently, the Supreme Court considers it vital to assess whether there is proportionality between the breach and the association compensation payment. In this sense, the ECJ lays down guidelines under which the national judge must firstly assess on the basis of domestic law whether the content of the contract leaves the consumer in a less favourable situation that established by law. Secondly, the judge must analyse whether it is likely that the consumer would have accepted such a clause had it been agreed on the basis of individual negotiation.

The Civil Chamber, after analysing the Spanish legal provisions regulating arrears interest (the Civil Code, the Law on Consumer Credit Contracts, the Mortgage Law, the Law of Civil Proceedings, etc), determined that in the case of unsecured loans, the arrears interest established in clauses that have not been negotiated must not be very high, given that the basic remuneration interest is already high as the loan is not secured by collateral. The Civil Chamber reiterated that a 2% arrears interest is the most suitable for unsecured loans taken out by individuals, as it prevents the arrears interest from being lower than the basic remuneration interest, establishes indemnity proportional to the damages suffered from non-compliance with the obligation and, finally, act to dissuade borrowers from stopping their regular loan repayment. A higher surcharge than two percentage points would be unjustifiedly higher than the kind of arrears interest rates reflected in the domestic law analysed.

Consequence of the annulment of the abusive clause

The ECJ also ruled on the consequences that should stem from recognition of an abusively high arrears interest rate. Here, the Civil Chamber ruling refers to European jurisdiction under which national judges should leave the abusive clause null and void, without being able to modify its content. In this manner, the contract remains in force with no modification but the elimination of the clause, provided that the contract is still legally enforceable under the local legislation.

Disclosure of information and corporate governance: review of requirements

With capital markets undergoing constant change, and in order to promote transparency, maintain market integrity and strengthen investor protections, the Malaysian Stock Exchange has revised the requirements for listing on its securities exchange, with respect to information disclosure and corporate governance.

Consequently, in October this year, it published a consultation paper with the proposed amendments to the listing requirements to sound out public opinion and get feedback from its stakeholders. It also includes the proposed amendments to the information disclosure rules for companies involved in mining and exploration of oil and gas.

The amendments mainly focus on the following:

Annual Report and non-financial information

In order to give shareholders and investors an overall view of the company's strategy, financial situation, transactions and outlook, and in order to improve the quality of information published, this consultation paper proposes the following changes to the annual report:

Incorporate information on the company's businesses, its transactions and the financial yields obtained.
Provide a breakdown of the costs incurred in services other than auditing.
Publish the professional profile of the senior managers in the company, and improve the personal information on the directors and the chief executive officer: name, age, gender, nationality, date of appointment, experience, related parties, conflicts of interest, etc.
Report on the specific features of certain loans and contracts, and on the number of shares in the company or its subsidiaries owned by the chief executive officer.
Clarify the information on the directors' remuneration, specifically for those who provide services to more than one listed company.
Eliminate repetitive information.

Greater shareholder engagement

The following recommendations are intended to increase the participation of shareholders in listed companies:

Carry out votes at the General Meeting using ballot papers (abandoning the common practice of voting by show of hands), with an independent scrutineer to certify the outcome.
Publish the minutes of the Annual General Meeting on the company website.

International auditing standards

The following proposals are made in order to adapt the listing requirements to international auditing standards:

To immediately publish information on material of special interest for the auditors, and matters regarding the company's performance.
Strengthen the role of the audit committee in reviewing the financial statements.

MOG

The proposal requires that companies involved in Mineral, or O&G exploration or extraction (MOG) provide their shareholders and investors with the latest news on their operation, providing relevant and reliable material and information so that they can understand the activities and businesses in which the MOG is engaged and reach informed decisions on their investment.

The role of the Board in insurance

and reinsurance companies

The Chilean Securities and Insurance supervisor (SVS) has put out its draft regulation for public consultation. This supplements and modifies the general regulation, Norma de Carácter General (NGC) Nº 309 que dicta principios de gobierno corporativo para aseguradoras y reaseguradoras, published in 2011. The draft regulation covers the following aspects, which were not present in the earlier regulation:

Risk Management System

The entire document places emphasis on the responsibility of the board to guarantee the suitability of the institutions' risk management system. The following aspects are of special importance:

Risk appetite

Boards must define the nature and extension of the significant risks to which the entities are willing to bear (Risk Appetite) in order to achieve their strategic objectives and meet their business plan. The directors must therefore have an adequate understanding of the risks to which the entity could be exposed, and the techniques for quantifying and managing risks.

The board must have a system or procedure specifically designed to define, implement and monitor that the Risk Appetite it has defined is being respected.

Risk strategy and policies

The board is responsible for reviewing and approving the entity's general strategy for risk and its specific policies for dealing with the material risks it faces. It must ensure that the risk management policies and strategies are reviewed and updated on a regular basis.

It is also the board's responsibility to keep up with best international practices in corporate governance, establishing a reporting system from the senior management to the board, so it is duly apprised of the maximum levels of risk tolerance and any other important circumstance affecting the company's risk policy in a timely manner.

In all cases, any change in the company's business strategy must be accompanied by an analysis of the risk associated to it and its impact on the risk management system management.

Internal evaluation of risk and solvency (ORSA)*

The main novelty is that it introduces the insurers' duty to carry out an internal evaluation of its risks and solvency at least once a year in order to determine its present and future solvency. Every year, before 31st March, the company must submit a report on the results obtained, approved by the entity's board. This must include a detailed description of the internal assessment process, documents, calculations, results, and an action plan to correct any weaknesses detected.

The Risk Management System's procedures, methodologies and criteria should be approved by the board and reviewed periodically, either internally by employees who do not perform executive duties (independent of the business areas) or externally by specialist firms.

Own assessment and reporting to the SVS

Insurance companies must submit all necessary information to the supervisor, the SVS, that it needs to assess compliance with the principles and practices of corporate governance. Every two years they must carry out their own assessment of these principles and practices, analysing to what degree their

corporate governance structures comply with the provisions of the regulation.

They will notify the SVS of the outcome of their own assessment, and submit an accompanying plan of action, describing the specific measures they will take to correct the weaknesses detected. The plan must be approved by the board and submitted each year prior to 30th June.

The provisions contained in the Bill are supplementary to the NCG 385, described in Progreso 4. Thus, the insurance companies that have constituted themselves as listed companies are not only obliged to comply with the requirements described above, but also to report to the SVS with the information required by Standard 385.

* *ORSA (Own Risk and Solvency Assessment)*

Payment aspect of financial inclusion

Over recent years, the importance of financial inclusion and its different facets have been analysed in numerous studies. However, the payment elements have only received superficial treatment. This document sets out to analyse the supply and demand for payment systems affecting financial inclusion, so that it can then make informed suggestions on how to deal with the needs detected.

The reports starts with two key points: (i) efficient, accessible and secure retail payment services and systems are crucial to promote financial inclusion, and (ii) an account in which people can carry out financial transactions is essential in itself, and can give people an entry into the system so that they can then think of adding further financial products.

The study analyses the current panorama in payment systems for retail customers and the barriers to access and use that they face. It ends with a set of objectives to promote financial inclusion that could be achieved by a better offering of payment systems. It establishes a set of guiding principles to get there

---

Anti-Money Laundering and Terrorism Financing obligations

By virtue of Law 23/2015, 27th April, analysed in Progresso 3, and the subsequent approval of Agreement 005/2015, 26th May, mentioned in Progreso 4, concerning measures that financial institutions and other identified persons must comply with concerning Know-your-Customer and/or Final Beneficiary Policy to prevent Money Laundering and Financing Terrorism, and other related crimes, the Panamanian Banking Supervisor (SBP) issued the following circulars:

Circular SBP/DPC/FINAN/0169/2015

It asks financial companies to submit Manuals, Programmes, Policies, Procedures and any other information used to Prevent Money Laundering and the Financing of Terrorism and their respective up-dates.

Financial institutions have until 15th February 2016 to submit this information to the banking regulator in PDF format on a Compact Disc.

Circular SBP/DPC/FINAN/0182/2015

This requires companies to send their 2014 and 2015 Financial Statements and Income Statements to the SBP by 31st March 2016. Furthermore, from 2016, financial institutions must submit their internal Financial Statements quarterly and their audited Financial Statements annually.

It is important to highlight that it remains mandatory for financial institutions to submit their Financial Statements, audited by an authorised chartered accountant, to the regulator, the Ministry of Trade and Industry's Department of Financial Institutions, within four (4) months of the close of the financial year.

Greater supervision

These initiatives mark the first steps in migrating to more stringent banking supervision, a major challenge for financial institutions in Panama, which will have to adapt and/or up-date their internal controls and procedures.

2030 Agenda for Sustainable Development

The member states of the United Nations passed the Sustainable Development Agenda 2030 on 25th September. It contains an action plan with 17 goals and 169 targets, spanning all three dimensions of sustainable development to tackle economic, social and environmental challenges. The 17 sustainable development goals continue along the lines of the Milennium goals, focussing more deeply on the eradication of poverty, food security, health and well-being, universal education, gender equality, water, sewage, energy, sustained economic growth, the fight against climate change, peace and access to justice.

Agenda 2030 will be implemented through partnerships straddling the public and the private sectors. The states recognise the eradication of poverty as one of the major challenges facing the world, and thus undertake to put in place measures to implement it and bring national development policies and programmes into line with the SDGs over the next fifteen years.

The BBVA Microfinance Foundation has been recognised by the Fund as one of the 13 private-sector institutions to be involved in its public-private partnerships and now sits on its Private-Sector Advisory Group. The United Nations "Working Together Towards the Sustainable Development Goals: A Framework for Action" highlights the importance of the work being done by the BBVA Microfinance Foundation within the SDGs. It is cited as a key example of how to achieve the goals of eradicating poverty, supporting jobs with decent conditions and gender equality.

Financial Inclusion in Latin America and the Caribbean: Data and tendencies

Financial inclusion is a vital issue on the political agenda of many countries in Latin America and the Caribbean. Governments and the private sector have both been developing strategies to stimulate financial inclusion in the region.

This report analyses the structure and main features of the financial system in Latin America and the Caribbean, in order to provide information to the public and private sectors regarding the market situation (suppliers of financial services, financial products, use of such products and services and access channels). It defines the current gaps in inclusion. The data it uses come from 19 countries in the region, classified into the following categories:

Data on the economic and social environment
The financial system: number and types of financial intermediaries and other characteristics
Credit
Credit for farmers
Access and channels
Savings
Microcredit

The OECD updates its Corporate Governance Principles

In September, the Organisation for Economic Cooperation and Development (OECD) published an updated version of its Corporate Governance Principles, last revised in 2004. Its aim was to reflect current priorities on the agenda of the G20 countries for defending good governance as a sound element driving growth and inclusive development.

The new principles maintain many of the recommendations from the previous version, but add significant new ones, reflecting general shifts in corporate governance following the world-wide financial crisis:

Basic standards for a good corporate governance framework: The document highlights the essential role of the corporate governance framework to promote fair, transparent markets and efficient resource allocation; the importance of the quality of supervision in the application of principles; and the fundamental role of the securities markets in promoting good corporate governance.
Rights and equitable treatment for shareholders: There are new principles regarding the right to information and shareholder engagement through the General Meeting in the important decisions regarding the company; information on control structures; the use of new technologies to encourage shareholder participation in General Meetings; regulation of procedures for approving related-party

transactions.
Institutional investors, stock exchanges and other intermediaries (new chapter): ensuring the regulatory framework of corporate governance is in line with business realities; encouraging dialogue between institutional investors, the board of directors and the senior management; dissemination by institutional investors, of their voting and corporate governance policies, and how they manage conflicts of interest generated in the exercise of their rights.
The role of stakeholders in corporate governance: recognition of active cooperation between the company and stakeholders to defend and recognise their rights; duty to provide stakeholders access to information that is timely, comprehensive and sufficient.
Dissemination of information and transparency: identification of essential areas on which financial and non-financial information must be disclosed to the market.
Responsibilities of the board of directors: main duties of the directors, with special emphasis on the review of corporate strategy, risk management, tax planning and oversight of the internal audit; relevance of the training sessions for directors and assessment of their performance; constitution of specialist committees, at a minimum, board remuneration, audit and risks committees.

Ending extreme poverty and sharing prosperity: Progress and Policies

The World Bank established two clear-cut goals in 2013, as part of its mission to rid the world of poverty: (i) to eradicate extreme poverty by 2030 and (ii) to encourage shared prosperity. Its report "*Ending extreme poverty and sharing prosperity: Progress and policies*" presents its performance in achieving them over the last two years.

The document is divided into three blocks: the first and the second analyse the results obtained for each of the two goals, while the third presents a set of recommendations for the public authorities in developing policies to eradicate poverty and bring about shared prosperity.

Success in eradicating poverty was benchmarked against three key indicators: (i) the performance of economic revenues based on the new poverty line ($1.90 a day); (ii) the degree of poverty between people with like-for-like characteristics, and (iii) the scope and depth of poverty, taking into account not simply lack of money but also other non-monetary deficits. The goal of promoting shared wealth is evaluated with respect to the increase in monetary revenues in like-for-like households at the base of the income pyramid.

The document concludes that significant, albeit uneven, progress has been made in reducing poverty and promoting shared prosperity, while little progress has been made in long-term environmental sustainability. There is still much to do, and the document recognises three specific challenges: the depth of poverty, inequality in shared prosperity and significant differences in all dimensions of development.

Microinsurance for farmers and integrated risk management in Central America and the Dominican Republic

The region of Central America and the Dominican Republic is exposed to frequent climate phenomena that have a seriously adverse impact on their farming industry. Measures must be adopted to mitigate and avoid risks. However, the development of insurance and microinsurance products for farmers, a basic instrument of prevention, is still not where it should be. In other countries in Latin America, such as Bolivia, Brazil, Mexico and Peru, significant progress has been made in this area, above all with insurance based on climate indexes (indexed insurance products) for small- and medium-scale farmers.

The document sets the context in which the farming industry operates throughout the Central America and Dominican Republic region. Secondly, it analyses the climate risks that this region faces and strategies that have been implemented to manage the risks. Finally, considering the high exposure to such phenomena, the vulnerability of the actors and the still incipient development of insurance and microinsurance products for farmers, it gives a set of recommendations to promote such products, both for indexed and non-indexed policies, to back up other risk management strategies.

2015 Social Inclusion Index

Americas Quarterly has recently presented its Social Inclusion Index for 2015. This is its fourth published index, which compares 17 countries in the Americas (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, United States, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay), using 22 variables including a range of heterogeneous indicators, from the usual economic indicators to others measuring civil rights, gender, citizen participation, government response capacity, etc.

The document starts by defining the set of variables it uses to measure the level of social inclusion in the selected countries, and establishes a league table to rank the countries on their performance in each of them. It then presents the general score for each country and gives a breakdown of each of their scorecards, variable by variable.

The index is intended to evaluate the impact of public policies implemented in these countries and to identify gaps in social inclusion. It is a document that can provide support to public, multilateral and other organisations and individuals wishing to assess and enhance their public policies.

In the period analysed, Uruguay holds on to its top place for the second year running, mainly due to its improvement in access to formal jobs. The United States moves up the ranking from last year, reaching second place, showing progress in women’s rights, financial inclusion and personal empowerment. Argentina takes the bronze medal, doing well in indicators such as GDP invested in social programmes. The document concludes that, in general, poverty has been reduced in the

Americas, above all in Bolivia, Brazil, Chile, Ecuador, Mexico, Paraguay, Peru, El Salvador and Costa Rica. However, it has increased in Honduras. All the countries do better in the financial inclusion indicator.

World Bank Report

2015 is a key year in certain aspects of world development and will be remembered as such. At the end of the year, the time period laid down to achieve the Millennium Development Goals (MDG) elapses and Agenda 2030 will come into force, as the world targets its Sustainable Development Goals (SDG). Setting up the SDG is a challenge that will require investment, new funding sources and a change in the way the world approaches the issue of development, if these goals are to be met.

The 2015 World Bank annual report presents the impact of the World Bank group on development, analysing the activity of two branches of its group, the International Bank for Reconstruction & Development (IBRD) and the International Development Association (IDA), which create partnerships with associated countries to put an end to extreme poverty before 2030, to promote shared prosperity and to back the worldwide programme for sustainable development.

The ECJ declares the Safe Harbour agreement to be invalid

On 6th October, the European Court of Justice (ECJ) handed down a ruling invalidating a decision of the European Commission (Decision 2000/520) that recognised a procedure known as the Safe Harbour, whose aim was to allow the transfer of personal data to entities located in the United States of America.

Safe Harbour provided a set of principles and guidelines on their application in order to protect privacy, issued by the USA Department of Commerce. The principles were drawn up to facilitate trade and transactions between the USA and the EU in order to obtain a presumption of adequate protection of personal data. The American Department of Commerce certifies adhesion to the Safe Harbour principles.

The impact of this ECJ ruling, rejecting the Safe Harbour principles could be of enormous importance for all European entities with suppliers or servers in the United States that need to receive personal data on customers, users or employees in the European Union in order to be able to provide services.

The case began when an Austrian citizen, Maximillian Schrems, lodged a complaint demanding that Facebook Ireland be banned from transferring his personal data to the USA, where Facebook also has servers processing its data. Mr Schrems argued that there was insufficient protection of his fundamental right to privacy in the United States, referring to the revelations made by Edward Snowden regarding the activities of the USA information services.

The High Court in Ireland passed the case up to the European Court of Justice, which is competent to

invalidate acts of the European Union, such as the Commission's decision to recognise the Safe Harbor principles.

The Court's analysis is based on the principle that the internal legislation and international commitments of the USA should guarantee a minimum level of protection to the fundamental rights and freedoms, substantially equivalent to that established in the European Union's Directive 95/46. With reference to this principle, the European Court of Justice ruling considered that the following aspects were grounds to invalidate the Commission's decision:

It does not include a statement of the state rules limiting the interference by the authorities in the right to privacy for the data, and such interference is accepted when they affect legitimate interests such as homeland security.
The Commission itself declared, in a communication sent to the European Parliament and Council in 2013, that the American authorities could access personal data and process them in a manner incompatible with the purposes for which the data were transferred, going beyond what was strictly necessary for the protection of national security. Thus, the ECJ considers that widespread access to such data, in the form of mass, indiscriminate surveillance of the content of emails, contravenes the essential content of fundamental rights regarding privacy.
The arbitration mechanisms are limited to commercial litigation and cannot be applied to litigation on the legality of measures taken by the authorities. The Court deemed that there is no efficacious legal protection against interference from the authorities.
It considered that it is abusive to not establish a possibility for those affected to have a right to access their personal data to rectify or eliminate them.

Reaction to the ruling was immediately forthcoming from the European data protection authorities, which issued a communication calling upon member states to initiate conversations with the American authorities in order to find political and technical solutions to enable data to be transferred to the United States while respecting fundamental rights. If the American authorities have not found a suitable solution before January 2016, and depending on the assessment of the transfer tools by the Working Group, the EU data protection authorities have undertaken to adopt appropriate and necessary measures, which may include coordinated actions in enforcing European law.

Regulation amendment to report obligations

The Peruvian Banking, Insurance and Pension-Fund Supervisor (SBS) published SBS Resolution 6231/2015 amending various provisions relating to Tangible Equity for Credit Risk, t*he Regulation for Liquidity Risk Management and the accounting standard, in order to bring them into line with the Regulation on Repurchasing Transactions, approved under Resolution* 5790/2014

According to article 4 of the resolution, it will come into force on 1st January 2016, except with respect to the presentation of Annexes N° 15-C "Monthly Liquidity Position" and N° 16-A "Liquidity Chart by Maturity Date" in the Accounting Manual, which will come into force for the information corresponding to January 2016, and with respect to the presentation of Annex N° 16-B "Stress Scenarios and Contingency Planning" in the Accounting Manual, which will come into force for the information corresponding to March 2016, and the information covered in numeral III.5, which will come into force the day after publication, and in numerals II.76, II.155, II.156, III.165 and III.20 of Annex A, which will come into force for the information corresponding to December 2015.

The most relevant changes include:

Amendments to the Regulation for Tangible Equity Requirement for Credit Risk

> Repo transactions are explicitly mentioned as within the scope of application of the Regulation for Tangible Equity Requirement for Credit Risk in the following aspects; (i) settlement and vesting risk; (ii) period of replacement and maintenance for securities trading; (iii) conditions for allocating a null discount; (iv) Maturity – standard IRB method; and, (v) Maturity – advanced IRB method.

Amendment of the Regulation for Management of Liquidity Risk

> – Liquid assets
>
> With this modification, the non-inclusion of certain assets in liquidity ratio calculations is regulated, when these are subject to repurchasing agreements (repos) or vest in repurchasing transactions.
>
> – Short-term liabilities
>
> Another modification is that to calculate liquidity ratios, obligations related to negotiable investment and to-term investments will no longer be considered short term liabilities. For such calculation the accounts payable for short sales are included as liabilities. The methodology has also been modified for the determination of short-term liabilities.
>
> – Liquidity Contingency Plan
>
> Finally, the amended regulation has withdrawn repurchasing agreements from the asset management foreseen in the contingency plan.

Amendments of the Accounting Manual for Companies in the Financial System

> The Accounting Manual has been modified to distinguish between deductible deferred tax assets associated to time differences and deferred tax assets associated to tax losses brought forward. Certain new accounts have been included in the catalogue of the Borrower Credit Report.

Ethiopia updates corporate governance in banks and insurance companies

The National Bank of Ethiopia, aware of the fundamental role of corporate governance in maintaining the solvency and security of the financial system, has published two practically identical directives: the first is applicable to the banking industry (SBB/62/2015) and the second to the insurance industry (SIB/42/2015). Their goal is to ensure that Ethiopian companies increasingly apply best practices in corporate governance.

The documents include the rules that should govern the way the corporate bodies operate and work. There are four appendices covering the following: (i) key aspects in the supervision of senior

management performance; (ii) the minimum content of the company's Code of Conduct; (iii) the composition, operation and powers of the Board committees; and (iv) the policies, manuals and minimum guidelines that must exist in every company.

Shareholders Meeting and Appointments Committee

Among the powers that the provisions give to the General Meeting is that of constituting an Appointments Committee, which must propose candidates for seats on the board of directors.

Unlike the usual corporate governance structure, this committee will report directly to the shareholders at the General Meeting rather than to the board. It will comprise a minimum of five shareholders, of whom at least two, in the case of banks, must be minority shareholders.

Board of Directors: composition and organisation

The Directives determine that the companies' board of directors must comprise a minimum of nine directors, with a variety of profiles to respond to the requirements of gender diversity and varied experience in finance, banking, accounting, legal matters, administration, audit and technology. Minority shareholders must unfailingly be duly represented on the board.

The directors will receive at least one training session a year on financial, legal, regulatory and corporate governance matters, risk control and internal control.

They will perform their duties for a maximum of six consecutive years, although they may be re-elected after six months have elapsed. However, such re-election may be extended to one further year at the most. The number of directors that may be re-elected may not be more than one third of the total number of board members in the company.

The board meetings must be held at least once a month and must be convened by the chairman or the secretary of the board in a formal call, to which the meeting agenda must be attached, at least three days prior to the date scheduled for the meeting. The directors must attend a minimum of 75% of the meetings every year in person, and will be remunerated as a function of their attendance.

Information for stakeholders

The directives list the responsibilities of the members of the board of directors and of the chief executive, and the duty of transparency in their activities, in order to protect the interests of shareholders, investors and other stakeholders. In addition, they provide a breakdown of the minimum financial and non-financial content that must be published on the company website and must be disclosed in the reports sent to the National Bank of Ethiopia.

Board Committees

The appendices deal with important details relating to the committees that support the work done by the board of directors. Banks and insurance companies must have, at the very least, an audit committee, a risks & compliance committee and a human resources committee. Each of these must comprise a minimum of three directors, meet at least once a month, and have the duty to report on their business to the board of directors.

Implementation of the Directives

The directives become law on the date they are published. However, there are some exceptions:

Banks have 60 days in which to prepare an action plan developing, approving and applying the policies, strategies, codes and requirements contained in the directive, and send this to the National Bank. This action plan must be rolled out within one year from publication (ie, before September 2016).

In the case of insurance companies, the policies, strategies and other matters contained in the directive should be applied from the date of publication (October 2015) and they will have to prepare and submit their action plan to the National Bank of Ethiopia in 60 days. Nevertheless, certain matters (such as appointment of directors, constitution of committees, approval of policies and specific strategies) have a deadline of a year after publication of the directive, to give the companies time to adapt.

Changes in the rules on corporate governance for listed companies

From 1st January 2016, companies listed on the Warsaw Stock Exchange will have to apply the corporate governance regulations contained in the current *Best practice code for listed companies*, approved in October.

In line with the latest international codes published recently, such as Spain's Code of good governance for publicly traded companies, Japan's Corporate governance code, and Colombia's New Country Code, the recommendations in this code follow the "comply or explain" principle. Thus, the annual corporate governance reports of listed companies must explain whether they fulfil the recommendations or not, and if not, give the reasons why they have not implemented them, so that the Stock Exchange can be aware of their compliance.

The document makes the following recommendations in its six chapters:

Policy of information disclosure and communication with investors. Companies must have a policy for disseminating information in an effective and transparent fashion. They must also ensure easy, non-discriminatory access to information. One of the changes from the previous regulation is that they can have their own website, not necessarily hosted in the Warsaw Stock Exchange's domain, which will serve as the main means for publishing information and communicating with investors.
Management board and supervisory board. Companies will have to promote diversity of gender, education, age and professional experience among the members of the management board and supervisory board, which must spend sufficient time on performing their duties effectively. Specifically, the supervisory board should be made up of at least two independent members, and in order to fulfil their obligations properly, the board of directors must give the supervisor access to all the information considered necessary.
Internal control systems. Companies must have effective internal control, risk management and compliance systems, as well as an effective internal audit function appropriate to their size and scale of activity. The units in charge of carrying out these functions must be separated, unless the company's size or activity warrants their being combined. Those responsible for risk management, internal auditing and compliance should report directly to the Management board, the supervisory board or the audit committee.
The General Meeting and shareholder relations. The Management and supervisory boards must ensure that shareholders are involved in the company's affairs and that their rights and interests are respected.

Conflicts of interest and related-party transactions. In their internal regulations, companies will have to specify how they prevent and identify potential conflicts of interest, as well as how to proceed in the event of these occurring. Members of the management and supervisory boards should avoid taking part in activities which could generate a conflict of interest for the institution or might affect their reputation. In any event, any conflict of interest generated should be reported at once.
Remuneration policy. Companies must have a remuneration policy, at least for the members of the Management board and senior management, which must be publicly available and give an itemised break down of each individual's compensation. The document recognises that remuneration should be sufficiently generous to retain and motivate staff responsible for managing and supervising the company, and should be decided with long term financial results in mind. Furthermore, remuneration of the supervisory board members may not have a variable component.

With these recommendations, the new code has adapted to several international corporate governance standards, although some of them are not very specific and leave room for interpretation. For this reason, the Warsaw Stock Exchange is preparing a manual to explain these recommendations and to provide companies with technical answers to help them comply with their information disclosure obligations.

Corporate governance in the consolidated text of the securities market law (LMV)

The Consolidated Text of the Securities Market Law (TRLMV), passed under Royal Legislative Decree in October, brings the original law's provisions into line with the latest international standards in corporate governance. Three of its additional provisions cover the following material:

Annual Corporate Governance Report. The seventh additional provision extends the duty in article 540 of the Corporate Enterprises Law to companies that are not constituted as *Sociedad Anónima.* They must thus also publish an annual corporate governance report, and the Ministry of the Economy & Competitiveness is empowered, with express authorisation from the securities market commission, CNMV, to determine the content and structure of the report.
Obligations in remuneration Under the eighth additional provision, companies whose shares are listed for trading on an official secondary market must comply with certain obligations regarding disclosure to the CNMV, publishing and publicising various aspects with respect to scrip dividends and option rights over these; and also the remuneration systems and their amendments, when indexed to the listed price of the companies' shares.
Supervision of the audit committee of entities of public interest The eleventh additional provision gives the CNMV powers to supervise the audit committees of entities of public interest, whilst also recognising the powers of the Audit & Accounts Institute (Instituto de Contabilidad y Auditoría) to supervise the financial auditing activity.

Steps towards Financial Inclusion

On 11th September, the Law to facilitate financial inclusion came into force in El Salvador. Its aim is to make it easier for the people in El Salvador who have traditionally been excluded from the financial system, to gain access to banking services.

The law promotes financial inclusion through the use of new channels with innovative products, such as banking correspondent, mobile money and savings accounts with simplified requirements. The channel must be easy for the general public to access and use. This should bring down costs both for the providers of the financial services and thus for their users.

The law creates E-money Suppliers (Sociedades Proveedores de Dinero Electrónico or SPDE), very much in line with the Colombian law on the creation of such companies, and develops two new products: the electronic money record and the savings account with simplified requirements.

New player in the market

The SPDEs are limited-liability companies supervised by the Superintendencia del Sistema Financiero. Their sole mission is to provide electronic money and administer mobile-payment systems when the Central Bank authorises them to do so. In order to promote good governance in such companies, the law establishes requirements for the appointment and performance of their directors and managers, and lays down their obligations, responsibilities and penalties for non-compliance.

It also expressly enables banks, cooperatives and savings and loan companies to provide electronic money without having to constitute a separate special purpose vehicle.

Inclusive products: electronic money record and simplified savings accounts

The electronic money records are designed to carry out simple transactions, recognising the everyday needs of the population they are intended to serve. The most frequent transactions are local transfers, reception of remittances, payments for basic services and payments in small shops. The requirements for opening a record are very simple: (i) presentation of a unique original identity document and (ii) completion of a form with the individual’s basic data (full name, ID document number, home address, business activity, main source of income, name and address of the beneficiaries). Only one electronic money record can be made per customer, and all records are subject to a balance ceiling and limited to the transactions authorised by the Central Bank.

The savings accounts with simplified requirements are governed by the provisions applicable to traditional savings accounts, but with the following specific features:

Only available to individuals
Only one account per customer and only one holder per account
Account to be used exclusively by electronic means
Subject to a ceiling on the balance and only transactions authorised by the Central Bank
Same requirements for opening as for the electronic money record

The banks, cooperatives and savings and loans companies are the only entities authorised to receive deposits over these accounts.

Finally, in order to facilitate access to the accounts, the law states that they may be opened by new customers through banking correspondents. When they are existing customers, it adds the possibility

of opening them over the digital channels offered by the entity.

A similar iniciative was Act on Financial Inclusion and electronical payment systems, anaysed in Progreso 1.

Updating legal framework for credit establishments

This bill repeals Royal Decree 692/1996 and establishes the implementing clauses for Title II of Law 5/2015 for promoting business finance, regarding the legal regime for financial credit establishments (FCE). A financial credit establishment is similar to the old credit entities with limited operating scope (known as ECAOL in Spanish) and forms part of the strategy of encouraging the growth a more robust system to enable Spanish companies to raise funding.

The bill establishes conditions of access to this business, solvency requirements for FCEs and rules on their supervision and oversight. It also dedicates a chapter to their corporate governance.

Conditions of access to the business

The FCEs are limited liability companies requiring authorisation from the Ministry of the Economy & Competitiveness, based on a report from the Bank of Spain and the Executive AML Service. They must be filed at the Companies Registry and in the Bank of Spain's Special Registry of financial credit establishments. They are licenced to grant credit and carry out other ancillary activities. They may also provide payment services and issue electronic money, when they have the necessary permits to do so. They are expressly forbidden to raise customer funds in the form of deposits, loans, assignments of financial assets or other similar activities.

They must have a minimum share capital of €5m, their limited corporate purpose must be defined in their bylaws and they must have their corporate domicile in Spain.

Solvency requirements and supervision

The bill refers to the solvency requirements, the rules on supervision and corporate governance established in Law 10/2014 on the regulation, supervision and solvency of financial entities, RD 84/2015, and the EU Regulation 575/2013. They must also have a sufficient buffer of high-quality liquid assets to cope with a period of serious financial instability. The size of such buffer will be determined by the Bank of Spain.

They are subject to the supervision and oversight of the Bank of Spain.

Corporate governance

The bill establishes the principles of corporate governance that the financial credit establishments must follow, in order to obtain and keep their permit to engage in this business. Thus, they must have:

Suitable administrative and accounting organisation and adequate internal control procedures to ensure the establishment is managed in a healthy and prudent fashion.
A board of directors comprising at least three members vetted for their commercial and professional honour, with experience and expertise fitted to their duties.
Suitable rules of internal procedures and organisation established by the board of directors, to help its members meet their obligations and be accountable.

The requirements demanded of directors regarding their repute, knowledge and experience will also be demanded of general managers or similar.

In line with the requirements on financial institutions for their corporate governance and their remuneration policy in Law 10/2014, the establishments must constitute an Appointments Committee, which may also act as Remuneration Committee. They may also set up mixed audit committees that will carry out the duties corresponding to the risks committee.

Limit on the Fee for Cash Withdrawal from ATMs

This Royal Decree establishes a new model for charging fees on cash withdrawals using credit or debit cards in ATMs.

Goal of the Royal Decree Law

The decree aims to establish rights and obligations for providers and users of payment services, so that the services will be given under due conditions of competition, transparency and trusts between the parties.

It bans the charging of two sets of fees on ATM cash withdrawals. Previously, customers withdrawing cash at ATMS using their card had to pay a fee to the card issuer and an additional fee to the owner of the ATM.

With the new law, the owner of the ATM may no longer demand a fee from the user or pass on the charge to the user, but may demand a fee from the card issuer. This fee to the issuer may be passed on in full or in part to the customer, but never for more than the fee that the card issuer charges the ATM owner. No surcharge may be added on for any other item, except when cash withdrawals are made on credit, in which case the card issuer may apply an additional amount, which can never be more than what is applied for cash withdrawal on credit from its own ATMs.

The entity owning the ATM and the card issuer may reach agreements to establish the maximum amount. Where there is no such agreement, the fee determined by the ATM owner will be the same for all the entities within Spanish territory, and may be reviewed each year. Any agreement or decision on such matters must comply with the anti-trust regulations for free competition.

Both entities must notify the Bank of Spain on their fees for ATM cash withdrawals in the form and with the content and according to the deadlines established by the Bank.

Every year, the competition and markets supervisor, the CNMC, will submit a report to the Ministry of the Economy and Competitiveness regarding the credit institutions’ agreements for determining the fee on cash withdrawals using cards .

Commitment to Transparency

The law includes on transitional provision that establishes that financial institutions must adapt to the provisions of Law 16/2009, 13th November on payment systems, before 1st January 2016, with respect to users' right to information:

Before customers can withdraw cash on their debit account, and in order to receive their express consent, the ATM owner must inform them of the fee that the card issuer will charge on such withdrawal and the possibility that a fee may be passed on in full or in part by the card issuer. When the cash withdrawal is on a credit account, the above information must also include the maximum additional amount that the issuer may apply.

The aim is to foster the use of Agricultural Microinsurance

In line with the recent Finagro initiative to promote voluntary microinsurance, the Colombian Congress is studying measures to increase the use of agricultural microinsurance by small-scale farmers in Colombia. The issues addressed by the bill include:

The definition of microinsurance as a tool to offset the underlying risks to representative crops associated with climate variables.
For the purposes of agricultural microinsurance, a small farmer is one that, while working in farming, does not have equity of more than one hundred and forty five (145) legal minimum monthly salaries in effect (SMMLV, as it is known in Colombia), including his/her spouse (by marriage) or permanent partner (by common-law), approximately equivalent to USD 32,000 at this time.
The object of the microinsurance must be to provide cover for the risks associated with agricultural activity, mainly climate risks that affect at least 75% of the crop in question.
The insured value per crop may not exceed 20 SMMLV (Approx. USD 4,300)
The crop may not exceed an area of 5 hectares
The premium of the agricultural microinsurance may not exceed 1.5 minimum legal daily wages in force (SMDLV as it is known in Colombia).

This rule seeks to protect people living in rural areas, whose only source of income is the labour-intensive production of agricultural produce on small plots of land. This population is especially prone to financial losses stemming from weather events, making agricultural microinsurance an ideal way of improving their quality of life and preventing their livelihoods from being cut short.

Furthermore, it also represents an opportunity for microfinance entities, which act as channels for marketing insurance policies in the Colombian market, including agricultural microinsurance.

Corporate governance and savings bank remuneration reports

Bank of Spain Circular 6/2015, 17th November, on savings banks and bank foundations regarding certain aspects of remuneration and corporate governance reports filed by savings banks that do not issue securities admitted for trading on official securities markets and the obligations of bank foundations stemming from their holdings in credit institutions.

In line with Law 26/2013 concerning savings banks and bank foundations, the Bank of Spain issued this Circular last November, with the main objectives of:

Adapting the formats of the mandatory annual corporate governance and remuneration reports to be filed by listed public companies, savings banks and other entities that issue securities for trading on official securities markets to make them more suitable for savings banks that do not issue securities admitted for trading on official securities markets;
Determining the minimum content and obligations stemming from the management plan and the financial plan for bank foundations;
Defining the minimum content that bank foundations must allocate to the reserve fund

The Circular is divided into two titles: Title I (Savings banks) and Title II (Bank foundations); and two Appendices: I (Annual corporate governance report) and II (Annual remuneration report).

We would highlight Title I, which establishes the obligation for savings banks that do not issue securities admitted for trading on official securities markets to submit a corporate governance report and a remuneration report to the Bank of Spain once a year.

The annual corporate governance report shall detail the structure of the bank's corporate governance system and how it works in practise. The remunerations report with respect to directors and members of the control committee shall include a complete, clear, and understandable description of the bank's remuneration policy adopted for the business year of reference, along with any policy that may be set for implementation in future years.

The contents of both reports are very similar to the contents of the corporate governance reports required of bank foundations in the *"Ministerial Order ECC/ 2575/2015, determining the content, structure and publication requirements of the annual corporate governance report and establishing the accounting obligations of bank foundations",* whose draft we discussed in Progreso 4.

Reports must be in line with the completion instructions and forms included in Appendices I and II of this Circular:

Appendix I: structure and functions of the governing bodies; remunerations received by the governing bodies; credit and guarantee or backing transactions; lending transactions with public institutions that have designated general directors, intragroup and related party transactions; conflicts of interest; group business structure; annual report drafted by the investments committee; risk control systems and other information of interest.
Appendix II: Remunerations policy for the current year and expected policy for future years; overall summary of policy implementation during the year closing; detail of individual remunerations due to directors and other information of interest.

Savings banks must submit these reports to the Bank of Spain within the first four months of the year following the year reported on, with a maximum deadline set as the day the notice is published for the annual general meeting to adopt the annual accounts for the year referred to in the report.

Changes regarding the definition of small-scale farmer

The Colombian Ministry of Agriculture and Rural Development and the Fund for Financing the Agricultural Sector (Finagro, introduced in Progreso 4) have issued a set of rules that seeks to redefine the category of small farmer used in the systems to provide financial support to the agricultural sector. The legislation in question comprises Decree 2179/2015, 11th November, issued by the Ministry and Finagro's current Regulatory Circular P/23/2015. The main change consists of increasing the asset cap for the classification of small-scale farmer.

Thus, for the purposes of lines of funding and discounts administered by Finagro, a small-scale farmer is considered to be somebody whose total assets do not exceed the equivalent of 284 minimum legal salaries in force (SMMLV, as it is known in Colombia), approximately USD 61,000, including the assets of the spouse or common-law partner; provided that at least 75% of their total assets are invested in the agricultural sector, or that no less than two thirds (2/3) of their income comes from agricultural activities. The maximum sum of loans for small-scale farmers is the equivalent to 70% of his/her assets (198.8 SMMLV = Approx. USD 43,000).

This new definition of small farmer manages to include a larger number of farmers that were previously classified as medium-sized farmers, hence loosing benefits that were solely for small farmers. It also makes more people eligible for microcredit from the point of view of microfinance entities.

In this issue, we analyse other Finagro's iniciatives, that foster the use of microcredit agroinsurance and introduce new concepts about agricultural microcredit .

Microfinance Market Outlook. Developments, forecasts, trends

This report analyses the trends and the expected development of the microfinance market world-wide for 2016. There are some 10,000 microfinance institutions in the world, but only 500 of these meet enough criteria to be analysed by ResponsAbility.

The study is divided into three mutually supplementary parts to conclude with a qualitative and quantitative market outlook for 2016:

Macroeconomic outlooks
Qualitative interviews with industry experts, rating agencies, investors and consultants

Quantitative extrapolation from the data reported by 349 microfinance institutions, used to create a representative market portfolio model to estimate the performance of certain indicators

---

Regulating the use of credit and debit cards

On 25th September 2015 the law regulating the use of credit and debit cards in Paraguay came into force. The regulation aims to establish a set of requirements and conditions in the issue, contract and usage of credit and debit cards, with mandatory compliance for card issuers, operating companies and users themselves.

The law establishes provisions for quality of service, duties of transparency and information and specifies the maximum limit on interest rates applicable to the use of credit cards (article 9 of the law).

Interest ceiling

According to the article cited, the interest that can be applied on credit card use may not be higher than triple the current average deposit rate as published monthly by the Central Bank of Paraguay (BCP), which would be roughly equivalent to 18%*. It is worth remembering that before the law came in to force, financial institutions tended to use what the BCP considers to be a usurious rate, of over 50%** as their reference for setting the applicable interest rate. This fixing of an “interest-rate ceiling” has had consequences for the commercial strategies of the institutions involved, which in turn impacts user consumption patterns.

Reactions to the law

The Banking Association of Paraguay (Asociación de Bancos de Paraguay, ASOBAN) and the Association of Financial Institutions of Paraguay (Asociación de Entidades Financieras del Paraguay, ADEFI) have informed users of credit cards in the financial system, merchants and the general public that (i) all the benefits, discounts and promotions that they have been enjoying through banks and financial institutions with participating merchants have been cancelled with immediate effect; (ii) transactions that exceed the credit available on the credit card will be automatically refused and (iii) anti-fraud insurance policies taken out before the law came into force will not be renewed once the policy expires, although new protection measures may be agreed upon.

Likewise, ASOBAN and ADEFI member institutions report that they are required to take the following measures:

cancel interest-free deferred payment plans and options for interest-bearing deferred payment;
gradually reduce the credit facilities on cards whose available balance is PYG 5m (approx. USD 860) or less. In these cases, the credit allowed will be brought down to match the latest balance that the customer has used;
reduce the amount that the institution can advance in cash; and
increase the percentage of the minimum monthly payment the customer must make in cases of deferred payment.

Other related articles that may interest you:

Law on Electronic Money (Peru)
Decree regulating Electronic Money (Peru)
Specialist Electronic Payment and Deposit Companies (Colombia)

* According to the Central Bank of Paraguay's publication on Thresholds on Usurious Rates for November 2015.

** Idem.

Savings under Formal and Informal Conditions

This study analyses different personal factors affecting the conditions of financial saving, according to two innovative surveys carried out by the InterAmerican Development Bank in the cities of Lima and Mexico DF. Its aim is: firstly, to understand how different personal situations affect savings decisions; secondly, to identify the specific defining characteristics of different workers in the informal economy and their relationship to saving; thirdly, to understand those factors that continue to be important, over and above the formal or informal characteristics of the person, and fourthly, to come up with some policy recommendations. Apart from confirming results from previous studies regarding the factors informing savings decisions, the research reveals the importance of how working in the informal economy negatively impacts people's propensity to save. But apart from whether they work in the formal or informal economy, there are also other non-economic factors, such as self-confidence and motivation, which have a positive effect on savings decisions. These findings may be of importance for the implementation of economic policies.

MENTAL ACCOUNTS: Making Saving Money Easier, Using Behavioral Data

This was a thesis written for the International Masters in Entrepreneurship Microfinance at Universidad Autónoma de Madrid, under the supervision of the Academic Director, Dr Maricruz Lacalle Calderón and Dr Federico Estrada (Fundación Capital). It is a valuable application of new behavioural economics. Setting out to understand how best to promote the accumulation of financial assets among the poor, the thesis explores the barriers created by behaviours that undermine positive attitudes to savings and deposits, and the role of different commitment mechanisms that individuals use to condition their own behavioural patterns. It examines to what degree mental accounting can improve the propensity to save among the poor, and the different ways of calling a savings account in

the formal financial system can help (to propose something specific such as a savings target). The theoretical framework is applied to the case of the Mujeres Ahorradoras programme in El Salvador, a financial education programme spearheaded by Fundación Capital to help women savers. A proposal is made to evaluate the relationship between financial education and mental accounting.

New law on notaries public

Law 140/2015 repeals Law 301/1964, making the regulations governing notaries public and their function more suited to current times. It establishes a lower number of notaries per inhabitant, the use of digital signatures, the creation of a registry of wills and proxies, a new type of notarial paper and the regulation of notarial prices.

Current situation

The banking associations of retail and savings & loans banks, Asociación de Bancos Comerciales de la República Dominicana (ABA), Asociación de Bancos de Ahorro y Crédito (ABANCORD) and Liga de Asociaciones de Ahorros y Préstamos (LIDAAPI), presented an allegation of unconstitutionality.

Ricardo Hausmann, professor of the Practice of Economic Development at the John F. Kennedy School of Government at Harvard University

Ricardo Hausmann

Ricardo Hausmann, a Venezuelan-born economist, is the current Director of the Center for International Development and a Professor of the Practice of Economic Development at the John F. Kennedy School of Government at Harvard University.

From 1992 to 1993 he was Minister of Planning in Venezuela and head of the Presidential Office of Coordination & Planning. From 1994 to 2000 he worked as Head Economist at the Inter-American Development Bank.

What do you think are the key determinants of a country's economic and social development?

Life in modern-day society is complex. It requires numerous complementary ingredients and, if just one of them is missing, it will have huge negative effects. Thus, two equally poor countries may suffer from the absence of very different ingredients. This is also why simple recipies, such as education, microcredit or "institutions", are inadequate answers. But if I had to come up with a synthetic vision to encompass all developing countries, I would say that the secret to development or, in any case, the most difficult ingredient to accumulate is collective know-how or knowing-how-to-do things. The secret to prosperity is technology, but technology is expressed in three kinds of elements: tools or equipment, codes or prescriptions, and know-how or tacit knowledge. While tools and prescriptions are easy to disseminate, know-how is hard to spread, because it is acquired slowly through imitation and repetition, in the same way that we learn to walk or learn a language as children. Nobody learns to play a sport or diagnose a patient by reading about it. It requires years of practice.

Why does collective know-how matter so much?

It is a phenomenon with two elements that make it a major obstacle in development. First, modern technology often requires collective know-how, in that the task to be done can only be accomplished by a diverse but cohesive team. It is like a symphonic orchestra: in order to play a symphony, it is not sufficient to have one violinist, however skilful he might be. The capacity to create teams of people with sufficiently diverse know-how to be able to play the piece is often the most difficult aspect of disseminating a technology.

The second is that even if a violinist teaches his art to others, which allows the reproduction of the know-how he already possesses, he cannot teach others to play the oboe. And if nobody in the country knows how to play the oboe, then there is nobody who can train others for that instrument. The absence of oboe-players makes it imposible to play any pieces that require an oboe part. Thus, having the first person with a certain type of know-how is a challenge like the chicken and egg dichotomy: nobody knows how to do something that they have never done, but nobody can do what they do not know how to do. The main challenge in development is to find ways to resolve this issue, which is a problem of coordination.

This feature of development means that less developed countries not only produce less per capita, but also that they produce a lesser variety of products in general and those they do produce tend to be more simple, in that they require less collective know-how. They tend to be quartets rather than symphonies.

Are there common denominators even amongst the different approaches of economic theory that could be universally applicable to all countries, to speed up their economic growth and reduce poverty and inequality?

The answer to this question depends on the degree of abstraction to which it is formulated. If the idea is to come up with a shopping list of policies that all countries should adopt regardless of their context, I think the answer is clearly negative. There is no one-size-fits-all, however much in the past, development drives focussed on finding such a formula.

For me, as I said before, the challenge of development is to increase collective know-how and express it with the greatest diversity and complexity in economic activities. The obstacles impeding progress

are potentially many and the manners of resolving them highly diverse. What all countries require is a capacity to organise the search for new opportunities and to overcome the obstacles along the way. The search may focus on doing what was already being done but better. Or it may focus on initiating new things. In my opinion, such new things play a central role in long-term growth. The capacity to identify opportunities and obstacles and coordinate their resolution may be the determining factor in development.

In the socioeconomic development of Latin America, what role is played by politics and what role is played by economics?

One of the most pointless debates is the dilemma of the state versus the market. Really, the two modes of organisation, when understood properly, are not substitutes for each other but mutually supportive or complementary. Substitutes are things like tea or coffee. Complements are things like coffee and sugar. The more tea you drink, the less coffee you want, but the more coffee you drink, the more sugar you want. The market and the state need each other. That is why rich countries have more of both.

The market is an exchange of property rights and the state defines and defends these rights. The market needs infrastructure, rules, regulations and many services that cannot practically be organised through the marketplace. The market is a system through which every player earns their living doing things for others. What they earn depends on the value that others place on what they do for them. This recursive relationship is, by and large, what makes it possible for the market to self-organise.

Politics is the mechanism by which societies administer the functions and the roles of the state. Politics decides on the millions of pages of legislation and on the responsibilities and resources of thousands of public entities. In order for functions as dissimilar as meteorology and national defence to be discussed in a coherent manner, politics must create an idea of “us”, a collective identity in whose name things are being done. This identity is based on an idea of who we are, where we come from and where we want to go together.

Latin America and the Arab-speaking world are the only two areas in the world where many states speak the same language. In general, countries define themselves by their language to a large degree: the French, the English, the Hungarians, the Finns, etc. There are countries with more than one language, such as Spain, Belgium, Canada or Nigeria, where this very fact has created difficulties in generating a shared identity. In the end, the language defines a set of people that can communicate with each other. Latin America has the opposite problem. What does it mean to be Venezuelan or Costa-Rican that makes one sufficiently different from a Panamanian or a Columbian to make it worth having a different state, if it is not language that creates that distinction?

Why does the identity of a nation matter so much?

I believe that countries encounter serious difficulties when they haven´t properly resolved the problem of their identity and their history, as this leads them to think badly about their present and their future. An example is the interpretation of the history of Latin America created by the pro-Cuban Latin-American left, exemplified in the book “The Open Veins of Latin America: Five Centuries of the Pillage of a Continent”. According to this history, the region has been victim to foreign domination: we are heirs to the Indians and the slaves exploited by the Spaniards and by American imperialism. These foreign powers exercise their dominion through the exploitative white elite. The path towards the future is one of a class struggle in which there is a clash with the foreign powers that dominate us. Within this logic, we can understand the Cuban regime or the Chavista regime. But this view of the world is a perfect recipie for the failure of a nation.

An alternative way of seeing things is that we are all the heirs to everything that came before us, including the Spanish whites and many immigrants who came in the decades following Independence. The conquistadores and the colonisers have more to do with us than with the Spaniards who live in Spain nowadays. At the end of the day, there is a reason why we speak Spanish. Our identity is a melting pot. Our progress depends not on class struggle but on cooperation among all citizens and between us and the rest of the world. Cooperation is not a zero-sum game and the art of politics is to identify and exploit opportunities to achieve a win-win situation.

In this alternative view, there is no room for racism, sexism and exclusion. Not only are they unjust, but they also hamper a society's progress. In the end, if everybody earns their living in a society by doing things for others, the more productive others are, the more they will do for me. That is why a society should invest in ensuring that all its citizens are productive, giving them the skills and capacities they need for that. The investment will repay itself many times over.

This alternative view leads us to think of politics and society in a very different way. It is a matter of cumulatively constructing a unit on the basis of cooperation and our diversity should be the source of strength not conflict.

Which Latin-American countries do you think provide a model to follow on the path towards greater economic inclusion?

I do not much like the idea of seeking out models to follow, because each country is playing with very different cards. Everybody in Latin America should feel dissatisfied with our achievements and aspire to greater things. I do believe that there is much to admire in the achievements of Chile in the macro-economic sphere, and in some aspects of its infrastructure and social policy. But its failure to do more to diversify and to promote innovation will cost Chile dearly in coming years. Moreover, Chile needs greater social mobility. The neighbourhood where you were born will determine your future too much. The game is not sufficiently open to all who could contribute to building up the country in line with their possibilities. Even so, I think that, on balance, it is the country that is closest to getting it right.

What would your proposal be to empower women more and reduce the current inequalities?

Latin America has some cities where life is unbearable. The process of urbanisation has been so chaotic and there has been so little solidarity that low-income people are forced to live far from the jobs in the modern part of the economy. So the time they take to reach work is unusually long. This is not helped by a rather precarious transport infrastructure. All in all, it means that working in the formal economy is not just an eight-hour working day. It also involves a commute of a further four hours. And if a mother has to spend twelve hours a day out of the home, who is going to look after the children when they get out of school? We need to re-think our use of the urban space, our housing policy, our planning regulations and our investment in mobility. Working and having a family should not be mutually exclusive. The current situation has led many women to opt for jobs closer to home, which has obliged them to move into the informal economy and reduced their productivity, simply because the formal economy is located too far away.

To add insult to injurty, our labour legislation is written by men and for men. The legislation does not allow for flexible working time, a mechanism that women tend to value more than men.

Finally, there is the issue of day care that would allow women with small children to go out to work while at the same time giving children a pre-school education, which seems to offer very high returns.

As former Planning Minister in Venezuela, can you describe what initiatives you set in motion to encourage economic development in your country of origin?

Public policy is a team game, not a game for individual players. The government of which I was a member faced the challenge of getting Venezuela out of the dead-end it was in, with multiple exchange rates, very negative real interest rates, price controls, high fiscal deficits and enormous subsidies for goods that were consumed more by the rich than by the poor. This strategy creates distorted incentives and prevents diversification in a country, which was something fundamental for an oil-exporter having to cope with low prices per barrel. To put it briefly, the government had inherited a situation very similar to the one facing Venezuela today.

The government managed to unify the exchange rate, free up prices and interest rates, reduce indirect subsidies, and create one of the first systems of conditional directed transfers. It also managed to privatise a large number of publicly-owned companies and to renegotiate its foreign debt. The economy began to pick up fast, but political events ended up throwing the recovery off track.

All the achievements were reversed during the Chávez period. Now in Venezuela one dollar will buy you over 9000 litres of gasoline; the bolivar is worth 140 times more on the official market than on the parallel market; and inflation, despite price controls and scarcity, is over 200%. Whole swathes of the economy have been nationalised. I think that very few things that the government I was a member of achieved have survived.

What was the biggest challenge you had to deal with while you were Chief Economist of the Inter-American Development Bank?

My experience at the IDB was extremely enriching. Enrique Iglesias and his vice-president, Nancy Birdsall, asked me to set up a research department from scratch. I had to create a team and define an agenda, establish lines of contact with the rest of the bank, with the policy-makers in the region, with academia, the finance industry and public opinion throughout the region. In managing this, I very much followed the advice given to me in another context by Presidente Carlos Andrés Pérez: “Don’t look sideways, look forwards.” Looking sideways, in this context, meant imitating the World Bank and the International Monetary Fund. At the end of the day they were organisations with much bigger, more mature research departments. So looking forward, I decided to focus on issues that my previous experience indicated were most important for Latin America.

We were the first to study the causes of macro-economic volatility in Latin America; the impact of budget institutions in the countries’ fiscal performance; the role of the “original sin” (the inability to denominate foreign debt in local currency), and currency mismatches in macro-economic crises, and many other issues. We developed a network of research departments in Latin America and the Carribean, and a network of Central Banks and Ministries of Finance in Latin America. I left IDB fifteen years ago, but the team I set up continues to achieve successes with very important contributions in areas such as productivity and productive development policies. The networks I mentioned have continued to grow and now constitute an important instance of intellectual integration in the region.

You have advised governments in more than forty developing countries on the design and application of development and growth strategies and policies. What were your most exciting or most frustrating experiences?

Sometimes both things go together. From 2004 to 2008, I chaired an international support committee for the South African economy team. I was accompanied by Dani Rodrik, James Robinson, Abhijit Banerjee, Philippe Aghion, Robert Lawrence, Jeffrey Frankel and many others. We carried out 24 studies, with position papers on the strategies and policies to be implemented. The government paid us a lot of attention under the presidency of Thabo Mbeki and his finance minister, Trevor Manuel. But then Mbeki lost power, and the current president, Jacob Zuma took a different tack from what we had recommended. The country is now suffering serious problems because of that. I learnt a lot there, but I also feel frustrated by the final outcome.

In Kazakstan, where I have been working since 2004, I helped to define the fiscal rules for the country and the way the national oil fund should work. I must say that the rules have left the country in an enviable position for coping with the drop in oil prices. From 2004 to 2013, the last full year of high prices, before they started to fall in the second half of 2014, the country had kept up rapid growth, but even so it had managed to save in its Fund the equivalent of seven years of oil revenue contributions to the budget. That is more than in Saudi Arabia, where they only saved 3-years' worth, and Venezuela, where instead of saving, the boom was used to increase debt. Moreover, Kazakstan has got through this last year and a half without having to reduce public spending and without lowering the level of the fund.

For just over two years, I have been working intensely in Albania, with the prime minister, Edi Rama. The Harvard Development Center that I run has helped to define and implement a good number of reforms in taxation, electricity, industrial policy, agricultural policy and others. Here, I have learnt the importance of bold political leadership and the capacity to communicate what is being done and why it is being done.

Right now, I am helping Mexico, Colombia and Peru to define diversification policies and strategies. It is still too soon to extract lessons, but I have learnt that internal diversity in these countries is enormous, and each region within the same country needs a different focus.

As Professor of the Practice of Economic Developmentat Harvard, one of your courses is called: "Why are so many countries poor, volatile, and unequal?" Could you briefly tell us what answer you give to your students?

Briefly, countries are poor because they lack collective know-how and that prevents them from making much use of the technology that exists world-wide. There are deep reasons that make it hard to acquire such know-how, as I explained before. This means there is little diversity and complexity in their economic and export activites.

This lack of diversity, which concentrates their risks, makes them volatile. And they lack the key markets that allow rich countries to transfer risks, such as a debt market in domestic currency.

A fundamental and very harmful part of income inequality has to do with productivity inequality. Chiapas, the poorest state in Mexico, has a per capita income not that different from Guatemala. Nuevo León, however, has nine times more income per capita than Chiapas, slightly above Korea's. This inequality is due to the complementarity of inputs that characterises modern production. In Nuevo León, they have many inputs so they can do many things with them, and quite complex things. In Chiapas do they not have many inputs and, therefore, they can only do a few things which are relatively simple. But it is not only that. This same logic means that it becomes more attractive to bring added inputs to places where many inputs already exist, such as Nuevo León, because that way the new input has far more possibilities to combine with other inputs and make interesting things. The challenge resulting from this inequality is not so different from the challenge facing development: the logic of complementarity between many inputs, including know-how, makes development difficult and

unequal. Ideally, we would want all the inputs to be available in all the different places throughout the country. But this is not feasible. Countries face the dilemma of putting some inputs everywhere or putting all the inputs in some specific places. The first strategy leads to all places having low productivity. The second leads to growth clusters and an increase in inequality. We need better strategies to deal with this trade-off.

In a few words, please define the meaning of some concepts you have brought into economic parlance, such as: “original sin”; “self-discovery”; “dark matter” and “economic complexity”.

Original sin is the impossibility of denominating foreign debt in local currency. As all developing countries normally have a net foreign debt, the original sin means a foreign exchange mismatch at the macro level, and this has serious consequences. In difficult times, the depreciation of the local currency makes it more expensive to service the debt, which means countries lose access to credit markets, preventing them from pursuing an anti-cyclical fiscal policy. To avoid depreciation, governments are obliged to raise interest rates in bad times, making their monetary policy pro-cyclical. With the original sin, countries lose their stabilisation mechanisms and increase their probability of falling into financial crises.

Self-discovery is the process that leads an economy to “discover” that it is able to do something well that it did not do before, but that the world already knows how to do. The challenge for development is not making innovations on a global scale but in developing activities in the country or region that are new for that region but not for the whole world. Thailand went from exporting jute and rice to exporting cars, tractors and chemicals. It discovered something about itself, namely its capacity to make automobiles; it did not discover automobiles.

Dark matter is the consequence of know-how. There are two types of capital in the world: simple capital and smart capital, i.e., capital mixed with know-how. When China invests in American treasury bonds, it is sending simple capital. When Toyota invests in Thailand, it does not just send money but also its know-how; and it obtains a return on both the money and the know-how it put in. In our accounting practices, we do not measure the return on know-how, which appears as “surplus” return on investment. This surplus return is the payment for the know-how and is the dark matter. The United States is a great exporter of know-how, but as this is not recorded in the financial accounts, it accumulates as large current-account decificits, which reached USD 9 trillion from 1980 to 2013, equivalent to 60% of one year’s GDP. This explains why, despite these deficits, the country does not pay anything for its foreign debt in net terms, but rather makes money on it: although the book value of its liabilities is higher than its assets, its assets yield more than its liabilities, so the net return is positive. In Latin America what happens is quite the contrary. The region is a net importer of know-how. Between 1980 and 2010, before copper prices fell, Chile had had a very small current-account deficit, so it had low net foreign debt. However, in 2010 it paid interest and dividends worth over 7% of its GDP, equivalent to a foreign debt of 140% of GDP at 5%. This was because Chile’s foreign assets comprise simple capital, whereas its liabilities are smart capital. The accounts do not reflect the large amounts of dark matter that Chile imports.

Economic complexity arises from the know-how economy. The world has far more know-how than would fit into any one person’s head. The only way to accumulate know-how in a society then, is to put different bits of know-how into different heads. To use this know-how in production, the heads have to be joined together. The broader the network of heads that need to be joined to make a product, the more complex the product is. Economic complexity is the other side of the collective know-how coin: it is what the society does to use the know-how.

From your viewpoint, what were the main lessons you learnt from being a board member of theInstituto de Microfinanzas de Acción Internacional?

Microfinance grew out of a very simple idea: granting credit generates fixed costs of evaluation and monitoring. The cost of processing and evaluating a USD 10,000 loan is not that different from the cost of processing and evaluating a USD 100,000 loan. To recover such costs, the bank has to charge more on the 10,000-dollar than on the 100,000-dollar loan. Below a certain size, it does not make sense to lend, because if you want to recover your fixed costs, the interest rate on the loan would be unpayable. That is why 100-dollar loans tend not to don't exist.

Microfinance is based on reducing the fixed costs to extend the credit market to smaller borrowers. So far so good. The problem is that an unrealistic discourse and unreachable expectations were added on, going beyond just the economic improvement.

The assumption that led to such enthusiasm was that if people managed to access capital, it would radically change the world. But the world has not changed and all serious assessments of microfinance find small and often negative impacts. Microfinance is much older than mobile phones, but nowadays there are billions of people with mobile phones and only hundreds of millions with microloans. That is a very small part of the banking system, even in Bangladesh. As I see it, this reflects the issue of know-how. I can give capital to all the women in a neighbourhood. But if what they know how to do is to set up a small bar or sell sweets, the returns on the capital will be very low and possibly below the cost of the loan.

Moreover, microfinance was not designed to select high-potential businesses and accompany their growth. Group borrowing based on solidarity obliges each entrepreneur to insure the other members of the group and this makes them reluctant to bear the risks of others. It is the opposite model to what venture-capital funds follow, where it is equity rather than debt that is invested, and one success pays off many failures. The more we broaden the availability of micro-debt, the more important the know-how constraint will become.

Last September, the 2030 Sustainable Development Agenda was adopted, with 17 goals and 169 targets which will definitely be quite a challenge for the international community. Do you think countries are ready (and willing) for the profound changes that the Agenda suggests for their economies, politics, culture and lifestyles in order to reach the goals? What role does civil society play in its implementation?

I am not a great fan of this agenda or its goals. This is a mechanism to allow rich-country governments to go to their parliaments and justify the aid they give to poor countries. I do not think it is the way that poor countries should establish their objectives. No rich country would accept such interference in their sovereignty. Moreover, I believe it is deeply anti-democratic. The role of politics is precisely to define goals. It is not up to the UN to tell its members what goals they should achieve. Nor can I see why these goals should be the same for all the countries. Apart from that, my experience is that the Milennium Goals worsened the way international aid worked and I think this mechanism will aggravate the problem.

I prefer a system with less central planning: a system in which donors and receivers meet in an aid market, where they do things that reflect both parties' common values. International coordination

should be on the procurement procedures, transparency and an evaluation of results. I have written about that, and nothing so far has led me to change my mind. Anyway, I think it is somewhat irrelevant for Latin America, given that international aid plays a very minor role in the region.

Can you comment on the book by Robinson and Acemoglu: “Why Nations Fail”?

I learnt a lot from Acemoglu and Robinson but I fundamentally disagree with their central thesis. For me, they are anti-Marxist in the theoretical sense of the term. Marx thought that the modes of production came first. From there, the different parts of society entered into relations of production. To regulate such relations and legitimate them, an institutional superstructure was developed. Acemoglu and Robinson see the causality the other way round. It is the superstructure that determines what is produced and how.

If Marx proposed the thesis, Acemoglu and Robinson came up with the antithesis. So we should seek out the synthesis. For me, institutions and production co-evolved. Societies did not develop institutions that they did not need for activities that did not exist. The development of institutions often stems from the desire to reduce the transaction costs generated by the reality of production and trade. They are not pre-defined by History.

Acemoglu and Robinson place the accent on the institutions, while I place it on the know-how. They start off their book talking about Nogales, Arizona and Nogales, Sonora. According to them, the differences between the two are due to the institutions. But the differences between the two Nogales are small compared to the differences between Nogales, Sonora and any equivalent-sized town in Chiapas, such as Ocosingo or Comitán de Domínguez. How is it possible that with the same constitution, the same judiciary, the same exchange rate, the same financial system, language and religion, towns in the same country are so much more different from each other than the two Nogales? Wouldn’t there appear to be something quantitively very important missing in what Acemoglu and Robinson tell us?

Tell us something about your personal or professional life that you would like to share with our readers.

Something that surprises many people is that, while both my wife and myself are economists, our three children are making their careers in the arts. Michel, the eldest, is developing a regional theatre in Miami – Miami New Drama (MiND) – and in January 2016 will be presenting a musical that he wrote, called “The Golem of Havana”. Carolina lives in Panamá and is working to develop a new art museum for the city. Joanna lives in New York, were she does comedy, above all for the Flama channel in Youtube, and she has literally millions of followers. In our Whatsapp chat, apart from talking about our own challenges, we follow the painful vicissitudes of Venezuela several times a day. It looks as though we are now ushering in times of change.

If you want to read more, see:

www.ricardohausmann.com

http://www.project-syndicate.org/columnist/ricardo-hausmann

Governance and Performance of Microfinance institutions in Sub-Saharan Africa

This was a thesis written for the International Masters in Entrepreneurship Microfinance at the Universidad Autónoma de Madrid, under the supervision of Dr Maricruz Lacalle Calderón and Dr Silvia Rico Garrido. The authors assess how the corporate-governance structure impacts social performance (depth of cover, measured by the percentage of women among its borrowers) and financial performance (self-sustainability) of microfinance institutions in Africa, in light of their goals in both areas.

It explores the impact of external and internal governance mechanisms. The econometric results show that although the legal system plays a significant role in both cases, being constituted as an NGO shows highest correlation with social performance while being constituted as a bank is correlated more to financial performance. Another key finding is that the percentage of women on the board has a positive impact on the percentage of women among an institution’s total borrowers.