Fitting the pieces together to understand our client's reality

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As responsible operators in the microfinance industry, our impact on society is an inherent part of our business model. We stand accountable for the way we service a segment of vulnerable clients and accompany them as they grow and develop. When our institutions scale up in a sustainable manner, both financially and operationally, the impact on their surroundings comes naturally.

But it is not sufficient to clients-provide access into the financial system. We need to go one step further and try to understand the environment in which our clients' live and work, so we can adapt our offering. This is quite a challenge in developing countries where there is limited standardised basic information to monitor performance over time and sometimes it is even hard to gauge the current situation with any degree of accuracy.

In the BBVA Microfinance Foundation (BBVAMF), in line with our mission, we go out of our way to gain in-depth understanding of our microentrepreneurs, so that we can customise our products to their needs and work with them to improve their living conditions, through a new function, namely Impact Assessment and Strategic Development (IASD). This might seem easy to say, but in practice it is extremely complicated. We want to come up with authentic value propositions that fit each client and we aim to build up our internal structure so that we can manage the impact we generate.

How can we best support our clients and adapt to their needs?

For the member entities of the BBVAFM Group (the Group), it is vital to establish a common structure of data collection if we want reliable impact measurement. This will enable us to understand our clients' characteristics (e.g. their socio-demographic profile, the size of their businesses, how long they have been with us, etc.) and their environments (urban, rural, etc.), so that we can be more flexible when offering them products and services. We need to understand their behaviour, connect them to other entrepreneurs or stakeholders in their value chain, and broaden the scope of information they can draw upon to better manage their businesses.

Our clients hold the ultimate responsibility for change. However, in the Group we try to help them manage change. That means identifying their strong points and their weaknesses, tracking their progress, by starting with the information that we have.

To gain the level of understanding required for this, we have to start by asking the right questions:

What are our clients' vulnerabilities? How poor are they? How is their family structured? What are their social surroundings like? What chances do their businesses have of progressing? What makes their businesses different from others?

Since 2012, we have been capturing this information in a systematic, robust and standardised manner through the Group's six member financial institutions. We now have a system including over 80 variables with 25 quantitative and qualitative indicators that help us to periodically analyse and monitor how our clients develop their businesses and how their living conditions have changed since they started their relationship with the Group entities. Information architecture is at the heart of our business, our guiding light.

This has given us the opportunity to drill down into certain core concepts and elaborate new hypotheses. We are creating silos of knowledge that we need to connect so that we can adapt the fundamentals of our business to the changes that our clients are experiencing. We do this by focusing on two lines of action:

First of all, we have IASD Lab – research at the service of our clients. It identifies factors that impact clients' progress and seeks to relate it to their socio-economic characteristics and their environment.

For example, we see that clients involved in farming (16% of our total client base) tend to have received very basic education, completing primary school at best, but the net incomes from their businesses are relatively high compared to other sectors. However, they face a range of difficulties such as reveue volatility and a lack of technical tools to grow their businesses.

We also observe that because women (60% of our total client base) rarely have access to ownership rights over land and the means of production, they tend to focus more on non-farming sectors, above all trading. Such businesses require a relatively low level of investment in order to be successful, and the profit margin is quite reliable, due to the lack of structural competition. However, the probabilities of growing scaling up businesses are low given the difficulties in accessing larger markets.

Special projects –products, services and channels– that entity's added value . We identify and categorise projects that have defined specific tools to address the basic needs of vulnerable clients within specific geographical areas or for the client groups that they are intended for.

Such (often pilot) projects have been designed to test address specific client needs/segments and allow us to analyse whether they are generating the expected outcomes.

One example of these projects are banking agents, which are often one-man stores or trading outlets. They help to bring clients closer to the financial institution, saving them time and money, and whose activity has made it possible to demonstrate that the greater the clients' economic poverty, the greater his/her transactionality.

At the BBVAMF we combine studies that look into client behaviour with studies of our microfinance institutions' activity. We seek to shed light on the challenges facing vulnerable entrepreneurs. When we work on managing impact, we are putting together the pieces in a jigsaw puzzle. We can discern the different elements within the often unstable environment in which our clients live, and despite the poor infrastructure around them, we can thereby understand their changing reality and see how to optimise the impact our services can directly have on their lives and businesses.

Thus, measuring impact is becoming an intrinsic part of our business model.It gives insights into our clients, our institutions and the products and services they offer; it enables us to integrate client intelligence into our management policies up to the last governing body, our Trust.

It is not a one-off assessment, or an investigation into a limited set of clients. It does not respond to a request from any specific investor, or in reaction to any circumstantial event. IASD is a core function.

It is strategic, not executive. It operates around the clock, to gather dynamic statistics, as reliable as those that big banks collect for their risks or their finance departments. This provides an invaluable stream of information with which to define projects.

By way of conclusion, then: detailed, recurring measurement of our microentrepreneurs' progress is an effective way of ensuring that we never lose sight of our mission and convert it into an actionable purpose.

BBVA Microfinance Foundation celebrates its 10th Anniversary

Regulation the social welfare system

The Ministry of Employment has presented a draft decree to regulate the social welfare system and the minimum protection threshold for Colombia's rural and urban populations in line with the commitments under the Final Agreement to end the conflict and build a stable and lasting peace.

This project is part of a set of public policies designed to reduce the vulnerability of the most disadvantaged Colombians and to improve their living standards.

The regulation establishes that the Social Welfare System will consist of: i) the Integrated Social Security System, made up of the General Health System, General Pensions System, General Occupational Risk System, Complementary Social Services, and ii) the Family Subsidy System.

One of the features of this regulation is the expanded cover of Regular Financial Benefits (*Beneficios Económicos Periódicos* BEP*) to include those with incomes under 1 MMW. It also establishes the procedure for people to transition gradually from the Subsidy Programme to the Contributory Pension system, to the BEPS, as well as the subsidy for BEPs with parafiscal farming and fishing contributions.

The regulation will create "Inclusive Insurance Policies", mechanisms to provide lower-income people with cover for accident, illness, death or natural disasters, among others, paying premiums that are adapted to their needs, incomes and risk level; the regulation establishes how these insurance plans should be funded.

The inclusive insurance plans are part of the "Minimum protection threshold for occupational risk", which seeks to protect the occupational activity of lower income workers.

The expectation is that the insurance schemes will be funded or co-funded by Family Welfare Funds [Cajas de Compensación Familiar], trade associations, producers' associations, guilds and

cooperatives that represent rural workers.

The regulation seeks to provide insurance for serious harm, contingent damage and catastrophe, to cover the economic activities of those with incomes of under 1 MMW, working in agriculture.

The regulation also creates the framework for developing trade campaigns and activities to promote a climate of workplace accident prevention and good health-and-safety practices in rural jobs; these will be rolled out by the Family Welfare Funds, trade associations, producers' associations, guilds and cooperatives that represent rural workers.

* Beneficios Económicos Periódicos (BEP) – [Regular Financial Benefits] – are a voluntary old-age savings programme for low-income people who have not been able to build up a pension or who, having done so, fail to meet all the requirements to receive it.

Instructions on the right of inspection

The Companies Supervisory Authority (*Supersociedades*), the institution responsible for inspecting, supervising and monitoring for-profit companies in Colombia, has re-issued the Basic Legal Circular, registered as External Circular 100-000001/21st March 2017, which brings together in one document the principal general instructions issued by this body on legal matters.

For the re-issue, *Supersociedades* has modified the instructions regarding the right of inspection, referring to the prerogative that each associate has to examine, either directly or on behalf of a party authorised for this purpose, a company's books and papers, with the intent of clarifying their administrative, legal, financial and accounting status. This right carries the correlative obligation on directors to hand over the information mentioned above; and is a keystone of corporate governance.

These instructions do not introduce a new regime; rather, they extend the scope of the legal provisions in Colombia around the right of inspection *.

With regard to the opportunity to exercise the right of inspection, the new instructions indicate that although this is one of the associates' essential and therefore irrevocable rights, it is not for that reason an absolute right over companies. The Companies Supervisory Authority has clarified that the right of inspection is limited by law, as to its scope in terms of both time and reach.

Supersociedades has clarified that the right of inspection may be exercised at any time in the event of i) general partnerships, ii) limited partnerships, and iii) limited companies. In the case of public limited companies, the right of inspection may be exercised during the fifteen (15) working days prior to the Annual General Meetings at which the balance sheets are going to be considered. Finally, in the

case of simplified limited companies, this same right of inspection may be exercised during the five (5) working days before the meeting at which the end of year balance sheets are due to be approved, unless the company's articles of association specify a longer period.

As to where this right is to be exercised, *Supersociedades* has reiterated that the inspection may take place at the company's headquarters. Stakeholders must review the company's documents on site, and these may not be removed from the company's premises.

There are restrictions over the right of inspection in terms of the content of the information requested. Documents about industrial secrets may not be required, nor information that, if disseminated, can be used against the company. Likewise, the stakeholders' obligation to respect the confidentiality of company information has been reiterated.

Finally, *Supersociedades* repeats the warning that any company director impeding stakeholders from exercising their right of inspection is not only failing in their duties but will incur cause for removal from their position.

* The legal provisions in Colombia regulating the right of inspection are: Code of Commerce (Decree 410/1971); Law 222/1995 and Law 1258/2008.

Regulation for the digital sharing economy

Colombia's Senate has published the draft of the first reading of Senate Bill 002/2016, which transposes Digital Sharing Economy (DSE) regulation into Colombian law. This deals with any economic activity by means of which goods or services are exchanged using digital platforms that put the customer and the supplier in direct contact.

As well as defining certain important DSE concepts (such as the sharing economy, open knowledge and collaborative production), this regulation stipulates that DSE business models are i) the provision of professional services, ii) the provision of "peer to peer" services, or those services in which two or more people interact to exchange goods or services in exchange for something, and iii) collaborative platforms where a service is provided in exchange for something that may be online, remote or provided through an individual request for service.

The regulation establishes that natural or legal persons wishing to provide DSE model services must be filed on the companies' register.

Regarding the regulatory framework for activities carried out by means of DSE systems, this bill indicates that when such activities compete with regulated companies and/or companies with special licences to carry out the same activities, the Information Technologies & Communication Ministry (MINTIC), in conjunction with the corresponding ministry and/or supervisory authority of the sector in question, may create the regulatory framework to level the playing field.

The bill also indicates that, for the purposes of the DSE, consumer protection measures and Habeas Data regulations will be applicable.

The last important component of this bill is the implementation deadlines it sets for DSE regulations, as well as the State's obligation to support the reinforcement of the institutional and regulatory framework to promote, defend and disseminate the DSE.

Active and transparent engagement of shareholders

In April, the Council of the European Union adopted a Directive that updates the European Parliament and Council's current Directive 2007/36/EC, on the rights of shareholders, the draft of which we analysed in Issue 4 of *Progreso*.

The new Directive aims to strengthen the active and transparent engagement of shareholders in companies that have their legal domicile in a member state and that are listed on a regulated stock market, located or operated in a member state.

In order to encourage shareholder participation and increase transparency in organisations, it sets new requirements, affecting:

Shareholder identification
Intermediaries
Engagement policies
The transparency of institutional investors, asset managers and proxy advisors
The remuneration policy for directors
The transparency and approval of related-party transactions

Shareholder identification

Companies will have the right to identify their shareholders in order to be able to communicate directly with them, although member states may exclude the requirements to identify shareholders where these hold less than 0.5% of the company.

Information about shareholders should include, at least:

Name and contact details of the shareholder or their unique registration/identification number, in the case of shareholders who are legal persons;
Number of shares held;
If the company so requests it: categories/types of shares held or date on which these were acquired.

The shareholder's personal information will be stored for 12 months at the most from the date when the person is known to have stopped holding shares.

Intermediaries

The aim of the new Directive is to improve information transfer between shareholders and intermediaries, so that the former may exercise their rights effectively, specifically the right to participate and vote at the Annual General Meetings.

It stipulates that member states should require intermediaries to transfer to shareholders in a timely manner all information that they need to exercise the rights deriving from their shares, or otherwise a notification that this information can be found on the company website.

In the case of online voting, shareholders will be able to get online confirmation that their vote has been received, and member states may set a time limit for requesting this information, no later than 3 months after the vote.

Continuing the commitment to transparency, intermediaries must publicly display their fees (including costs and fees) for each of the services they provide, and member states may forbid the charging of fees for these services when they transpose this directive into their national body of law.

The Directive will also be applicable to intermediaries who do not have their legal domicile or headquarters in the European Union.

Policy on shareholder engagement

The Directive aims to encourage shareholder engagement, as it helps to improve companies' financial and non-financial performance.

It makes specific reference to the impact of institutional investors and asset managers on the long-term strategy and performance of companies. The Directive requires them to be more transparent in their attitude towards the involvement of their shareholders and to develop and make public their policy of engagement, which involves reporting on:

How they monitor their investee companies: strategy, financial and non-financial performance, capital structure, social and environmental impact, corporate governance, etc;
How they interact with their investee companies:
How they exercise their voting rights and other rights that come with the shares;
How they communicate with shareholders in their investee companies;
How they handle conflicts of interest.

The policy of engagement must be publicly available on the company website.

Transparency

Institutional investors and asset managers will also have to post information on their websites about their investment strategies,which must be consistent with the profile and

duration of their liabilities, and contribute to the medium and long term performance of their assets. This information should be updated annually.

If proxy advisors are involved, they will also be subject to a code of conduct and will have to publish their voting recommendations for the annual general meetings of the previous 3 years, so that institutional investors choose their services with knowledge of their previous track record.

Remuneration Policy

The Directive requires shareholders to approve their remuneration policy for their directors at least every 4 years, although member states have discretion to decide whether this opinion is binding or not.

The policy must be published immediately after the general meeting, and should contribute to the institution's strategy, its interests and its long-term sustainability.

Furthermore, directors' performance must be assessed using financial and non-financial criteria, including environmental, social and governance factors.

The complete description of directors' remuneration may be outlined, if member states so decide, in a remuneration report, which should list all emoluments, monetary and in kind. The member states will ensure that this report is subject to an advisory vote at the next annual general meeting, explaining during the same how the vote has been taken into account. Once approved, it should be made available to the public on the company website, and should be free of charge for at least 10 years.

Related-party transactions

The member states must ensure when transposing the law that companies publicly disclose their related party transactions, including a minimum of information about the nature of the relationship, the parties involved and any other information deemed necessary. The disclosure may be accompanied by a report analysing whether the transaction is fair and reasonable from the point of view of the company and its shareholders, which must be drawn up by: i) an independent third party; ii) the institution's board of directors or supervisory body, or iii) the audit or other committee, the majority of whose members must be independent.

These transactions will be submitted for the approval of shareholders or the company's administrative or supervisory body.

Measures and sanctions

The Directive establishes penalties that are applicable in the event of non-compliance with the national provisions approved by virtue of the same, which should be effective, proportionate and dissuasive. Member states should communicate these to the European Commission within two years of the Directive coming into law, and also notify the Commission in the event of any subsequent modifications to the same.

Compliance and entry into law

Member states will have a maximum period of 2 years in which to transpose into their legislation the provisions of this new Directive, which came into effect 20 days after publication in the Official Journal of the European Union.

Information about the gender wage gap

On 6th April 2017, this law came into force in Iceland, seeking to eliminate the wage gap between men and women in companies with over 250 employees. The law requires information to be published every year on wage structures, breaking these down by individual and gender.

Companies will be required to report on the following data, which will be calculated using the formulas and definitions specified in the law:

The difference between men's and women's average wages
The difference between the average bonus paid to men and women
The proportion of men and women receiving a bonus
The relative proportions of male and female employees in each wage band quartile

Furthermore, companies should attach a written statement attesting to the accuracy and veracity of the information published.

The information required will be published on the company website in such a manner that it can be accessed by all employees and the public; it will remain up on the site for at least 3 years after publication.

National Consumer Protection Plan

The National Consumer Protection Council has pushed forward the National Consumer Protection &

Defence policy, approved by the Council of Ministers under Supreme Decree 006-2017-PCM.

The 2017-2020 National Consumer Protection Plan is an instrument for putting the national consumer defence policy into practice. With its long-term perspective, it will broaden the scope of consumer and user protection, helping to more effectively implement, develop and manage the national integrated consumer protection system, provisions for which are described in article 132 of the Consumer Protection Code.

The decree makes the National Competition and Intellectual Property Protection Institute (Indecopi) responsible for executing and monitoring the plan, and assessing compliance with it through an annual review. If required, it will propose changes to the National Consumer Protection Council. All such proposals should be aligned with the plan's specific strategic targets.

Finally, it outlines that the plan should be funded from the institutional budgets of the departments involved, in their respective areas of authority, under the annual public-sector budget laws, without using additional public treasury resources.

Entrepreneurial Support Law

The legislative body's Small & Medium Companies Committee presented its Entrepreneurial Support bill in February, to promote entrepreneurship as an effective tool for wealth and job creation in the country, and a necessary driver of poverty reduction.

The aim is to create a legal framework to support entrepreneurial activity, with the conditions and tools necessary to increase productivity and market competitiveness, facilitate access to financing and to include more people in the formal Guatemalan system.

Enterprise company

An enterprise company is one in which one or several parties, natural or legal persons, invest part of their assets in a specific entrepreneurial activity; their civil liability is restricted to the capital amount they have put up, and the entity has a different legal personality.

To set up an enterprise company, the registration form issued by the General Companies Registry has to be completed. This is the only registration requirement and costs nothing. The form should include: full name, identity document number, domicile and address; company name followed by the letters "E.E."; company address; capital and the tranches in which it is paid up; governance and powers of attorney.

On registration, the company will be issued with a licence, and the edict approving the enterprise company will be published in the Companies Registry Gazette, at no cost.

The enterprise company will have a maximum life of 48 months once the licence is issued, after which it should be incorporated under one of the legal forms described in the Code of

Commerce.

The company will be administered by the title owner or someone appointed by the owner, and that person will be its legal representative in court and in other matters.

Enterprise Investment Fund

This act creates the "Fondo Guatemala Emprende" [Guatemala Enterprise Fund], attached to the Ministry for the Economy, to finance the enterprise companies filed with the Companies Registry.

The Fund will be managed by a Management Committee, consisting of 6 people: 2 Economy Ministry authorities, and 1 each from the Ministries of Work & Social Welfare; Education; Public Finance and Social Development.

Governance of the fund, its management committee and any other bodies reporting to it, together with the requirements for receiving funding will be set out in specific regulation that the legislative body must draw up in the first two months after the law has come into effect.

Enterprise Incubator Unit

The Deputy Minister for Micro, Small and Medium sized enterprise development, part of the Economy Ministry, will put together the Enterprise Incubator Unit (EIU), which will be in charge of promoting and executing enterprise policies, programmes and projects, and of creating the right conditions to attract investors into the network of entrepreneurs.

This unit, supported by the National Statistics Institute, will calculate indicators to assess the impact of its public policies on enterprise.

Training, education and awareness

Training and mentoring centres will be set up for entrepreneurs, with particular support for those operating in geographic areas of vulnerability, poverty or extreme poverty.

Furthermore, teaching programmes about entrepreneurship will be promoted and rolled out in primary, secondary and university education environments.

Early rebates of the General Sales Tax

Supreme Decree 153 was published in 2015 to regulate the Special Early Rebate Regime (RERA in the Spanish acronym) applicable to the General Sales Tax (IGV), in order to encourage the purchase of capital goods. A modification was deemed necessary in order to bring it into line with the recently enacted Legislative Decree 1259, which fine-tunes a number of special IGV rebate regimes.

With this in mind, Supreme Decree 128 was published in May, containing new definitions and making some modifications to the articles in SD 153.

The new definitions cover the following terms:

Income-tax law
New Simplified Single Regime
General regime
Special Income Tax Regime
SME tax regulations for income tax

There are also changes to articles 2 and 3 of the decree, regulating the scope of the regime and the requisites for taking advantage of it.

Scope of the regime and requirements

The decree defines the scope of the regime for credit rebates of tax generated from imports and/or acquisition of new capital goods, as it applies to those taxpayers whose annual sales are no higher than 300 tax units (UIT).

These annual sales will be calculated by adding together the following items from the last 12 periods of the company’s economic activity prior to the period for which the rebate is being requested, according to the company’s tax regime during these periods:

Net income over the month,
Monthly net income from category-three (business) revenues,
Gross monthly income.

If the company has been operating for less than 12 periods, all the periods since start of trading will be used for the calculation.

In order to claim the tax rebate, taxpayers must be registered as micro or small enterprises on the MSME Register on the date of submitting the application.

Regulating municipal savings and loan unions

Municipal Savings and Loan Unions (MSLU) are currently regulated under Supreme Decree 157-90-EF, and the General Financial and Insurance System and Banking & Insurance Supervisory Authority Law 26702, with its subsequent amendments.

MSLUs are facing a modernisation process requiring them to:

Raise the level of profits that are reinvested by their shareholders (municipalities) and increase MSLU capital requirements, in order to maintain appropriate degrees of operating solvency and/or growth,
Put new mechanisms and incentives in place that ensure MSLUs are managed on a professional basis, strengthening their corporate governance,
Encourage the gradual incorporation of different shareholders other than their current shareholding body onto MSLUs, in order to strengthen their solvency and access to best practice in financial management,
Design and put corporate programmes in place, with the support and involvement of the Federation of Municipal Savings and Loan Unions (FEPCMAC), the Municipal Savings & Loan Union Fund (FOCMAC) and/or local and international bodies, to develop new technologies and management models, which work better with the innovations in the financial system or are designed to generate greater financial resources.

For this reason, the Banking, Insurance and Pension Fund Administrators' Authority wants to update current legislation to create mechanisms and conditions similar to those applicable to private microfinance institutions, thus consolidating the progress made by the MSLUs themselves. The following are some of the most important regulatory changes proposed:

a) Improving MSLUs' Corporate Governance, specifying the roles and powers of the Annual General Meeting in MSLUs,
b) Widening the range of transactions that MSLUs may conduct and, as a result, increasing the minimum capital requirement,
c) Enhancing the mechanisms that enable MSLUs to reinvest their profits so that they can shore up their asset base,
d) Creating mechanisms to protect the MSLU system to make it easier to inject capital into MSLUs that are subject to the supervisory regime,
e) Making it easier for third parties to become MSLU shareholders, setting standards for the composition of MSLU boards and for profit sharing,
f) Redefining the roles and powers of the FEPCMAC and FOCMAC.

Sale of insurance products

The purpose of this new regulation promoting the sale of insurance through a range of channels is to guarantee that users receive all the information they need about the products available in the market and that the information is accurate, clear, complete and transparent.

This regulation supports earlier regulations on Transparency & Micro-insurance and sets requirements that insurance companies must meet in training those they put in charge of their sales channels, such as the information that the channels must make available about their products. Insurance companies are also allowed to market products through their own employees, insurance promoters, points of sale, distributors and bancassurance.

This regulation also regulates companies' obligation to give clients documents about the insurance they have taken out, including the policy document itself and the terms and conditions, in the case of individual insurance policies, or the insurance certificate, in the case of group insurance.

Finally, among other provisions, the regulation empower customers to terminate contracts through direct channels. It states that the marketeer must inform customers of this right when they take out the policy and of how long they have to cancel the contract, for any reason, without incurring any penalty. The marketeer must also inform customers of their right to claim back the premium paid, provided they have not made use of any of the cover and/or benefits included in the insurance, excluding from this benefit any insurance policy that is linked to credit transactions.

Law to support entrepreneurial capital

In March, the Argentine Republic's Senate and Congress passed a law to support entrepreneurial capital, which began as an initiative of the Deputy Secretary for Entrepreneurs, in the Production Ministry, working with the Argentine Association of Entrepreneurs [*Asociación de Emprendedores de Argentina* (ASEA)].

The law defines entrepreneurship as *"any activity, for profit or not, carried out in the Argentine Republic by a newly created legal person, or one that was set up no more than seven (7) years ago".* Its purpose is to encourage people with innovative ideas to set up and develop companies and to sidestep two of the major obstacles facing those who want to begin an enterprise: bureaucratic barriers and lack of financial support.

New company structure and reduction of administrative delays

A new legal figure, Simplified Companies, SAS, in the Spanish acronym [*Sociedades por Acciones Simplificadas*]) will make it easier to open, promote and expand small companies, which will be able

to do the following:

Set up a Single Tax Code (*Clave Única de Identificación Tributaria*, CUIT or CDI) in 24 hours
Open a bank account quickly and easily, by simply presenting the company's articles of association and proof that it has a CUIT
Only one partner required
Minimum equity equivalent to 2 times the minimum living and mobility wage (two basic wages)
Issue shares with the same rights at different prices
Use digital signature, accounting books and proxies

Tax benefits

Capital investments made by investors in companies in this category can be deducted from the taxable earnings base. This deduction will be equivalent to 75% or 85% (for some under-developed areas and with less access to financing) of the investment made, with a ceiling of 10% of net earnings from that tax year, or the amount proportionate to the months since activities began in that tax year.

These advantages will be applied provided the total investment is kept in the company for at least 2 years, counting from the first tax year in which the investment was made.

National Fund for Entrepreneurial Capital

Under the provisions of this law, a Trust Fund for the Development of Entrepreneurial Capital (FONDCE) will be set up to finance enterprises in conjunction with the private sector. Its advisory board will be made up of representatives from the country's provinces and key institutions supporting entrepreneurs, and will develop financing programmes for entrepreneurs nationwide, such as the Seed Fund *[Fondo Semilla*], incubators, accelerators and enterprise capital investment funds, supporting both for-profit entrepreneurs and those whose main aim is a social impact, including cooperatives.

FONDCE's equity will be sourced from:

Resources allocated through the national government's general budget and other laws
Revenue from legacies and donations
Funds provided by national, provincial, international and NGO bodies
Funds that can be generated or released as a result of applying FONDCE programmes and pursuing its goals
Unearned income and the gains from these assets
Funds from IPO placements of negotiable securities issued by the FONDCE on capital markets
Funds from public and private firms, both Argentinian and foreign, wishing to support the development of the country's entrepreneurial capital

Crowdfunding

Crowdfunding platforms have been regulated so that part of a project's shares can be offered online and publicly, and so that small investors can take part in their initial phases; all this is supervised by the National Securities Commission.

Seed Fund programme

The law provides for zero-interest loans which will empower and finance those entrepreneurs who want to set up a project or take an existing start-up to the next level. The following will be assessed before offering these loans:

Innovation potential
How much support a particular province or region is receiving
Whether the diversity of the Argentine Republic’s productive sectors is being represented
Job creation
Value creation

The regulations to the law will be devised by the Ministry for Production, together with teams from the Finance Ministry, the Federal Administration of Public Revenues, the General Justice Inspectorate, the central bank and the National Securities Commission.

Assessing the potential for crowdfunding and other forms of alternative finance to support research and innovation

The research has shown that access to financing is one of their main challenges for European companies, particularly when they are small, young and innovative, indicating that alternative finance mechanisms play an important role for these groups.

It states that making improvements in small research and innovation companies using alternative finance models would help them overcome the financing obstacles they face.

Where will Latin America’s growth come from?

Some Latin-American economies have grown faster than those of developed regions, but are still behind those of other developing economies.

The report highlights the changes that must be made if productivity is to grow, bearing in mind factors such as (i) giving priority to high-value activities by removing obstacles to competitiveness and (ii) promoting efficient adoption of digital and automation technologies.

It concludes that transforming productivity and growth in the long term will be the result of concerted hard work that will have to be shared between governments, companies and the citizens themselves.

The Role of Financial Services in Humanitarian Crises

Humanitarian crises triggered by conflicts, natural disasters or climate-related events are on the rise and affect millions of people, especially the most vulnerable. Financial inclusion enables different segments to access financial services which provide the bridge towards humanitarian development.

Financial services have helped vulnerable and excluded people to cushion the impact of different crisis contexts, minimising their risk exposure and stimulating economic activity. The report* acknowledges this, seeing it as a solution to emergency situations and facilitating the development process.

* El Zoghbi, Mayada, Nadine Chehade, Peter McConaghy and Matthew Soursourian. 2017. “The Role of Financial Services in Humanitarian Crises.” Forum 12. Washington, D.C.: CGAP, SPF, and World Bank.

Regulation for payday accounts

The Board of Directors of Paraguay’s central bank (BCP) has approved regulation to regulate payday accounts, so that financial institutions offer quality products at an affordable cost. It also aims to promote transparency and increase the number of people in Paraguay with bank accounts and operating within the financial system.

The regulation sets the minimum conditions and criteria to be met by financial intermediation institutions and electronic money entities regulated by the BCP that provide payday and loan services using these accounts.

Financial institutions

The accounts may be used for deposits, loan disbursement, payments, electronic transfers and any other transaction that has been previously and expressly authorised by the account beneficiary.

Deposits may be paid in with no limit to the number of transactions and at no cost, through agents or branches (with no limits on the sum involved), ATMs (provided that the institution has an operational deposits-feature), non-banking correspondents (within the daily limits set by the disbursing institution), etc. Furthermore, the deposits paid into these accounts will be underwritten by the Deposit Guarantee Fund.

Institutions offering withdrawal and payment services through ATMs and/or non-banking correspondents should provide at least 10 withdrawals or queries a month at no cost. Charges (restrictions or fees on overdrafts) for using other entities' ATMs will be decided at the paying entity's discretion.

All account authorisations, acceptances, instructions and transactions may be carried out on-line and/or digitally, including those using the beneficiary's electronic or digital signature.

Institutions should also provide the account holder with a debit card or other device, at no cost, for withdrawals from ATMs and purchases using dataphones. They may only opt not to issue such cards if other more modern mechanisms can be used for the same ends, in which case the card will be issued at the account holder's request and for a cost.

Electronic-money institutions

Accounts may be used to carry out transactions that have been adapted to e-money accounts, in accordance with current law, but under no circumstances may these entities originate credits or loans to the account holders. They will not bear interest.

If the beneficiary's wages cross the upper threshold set for these electronic-money accounts, the funds should be transferred to a sight account in the financial institution selected by that beneficiary.

Deposits and/or credits in lieu of wages in the account may be paid in without limits on their value and at no cost, through the institution's points of sale, ATMs and self-service terminals.
The institution must make available points of sale for withdrawals and payments; beneficiaries may make 10 such transactions a month at no cost.

General provisions

There will be no minimum balance requirement when opening a payday account, or any ongoing average balance minimum, and the account may be totally or partly exempt from fees, costs and expenses, depending on each case.

In order to open an account, payees must supply information in electronic-file format, using a Single Contract Mode, about the contract signed between the payee and the disbursing entity, including information about the account beneficiaries' identity document number, private and work address, telephone, town, gender, civil status, nationality, etc.

Those disbursing entities that choose to offer these products should inform the Banking Authority that they are going to provide the service, enclosing a copy of the Single Contract Model within 60 working days, which the beneficiary will sign for approval.

The institutions must, at the very least, provide their customers a mechanism for balance queries, free of charge.

This regulation will come into force on 1st July 2017.

Personal Data Protection Bill

This bill proposes to update the legal framework for data protection in Chile, currently legislated under Law 19.628, by regulating areas such as information technologies as used in collecting and disseminating personal data. The bill also proposes to follow the recommendations made by the Organisation for Economic Cooperation and Development (OECD), of which Chile has been a member since 2010.

The precepts in the bill are consistent with recent international standards such as the European Data Protection Regulation, safeguarding respect for and protection of the rights and fundamental freedoms of people over their personal data.

The following draft provisions are important:

Guiding principles that underpin the regulation of personal data processing; these refer specifically to the principles of legitimate handling, purpose, proportionality, quality, security, responsibility and information.

Acknowledgement of the so-called “ARCO” principles, right of access, rectification, cancellation and opposition to the processing of personal data, all of them irrevocable rights that are free of charge and may not be restricted.

The consent of the data holder is the main source of legitimacy for the processing. Consent, which may be withdrawn at any time, must be free, informed, unequivocal, given prior to the processing and specific in terms of its purpose. However, the draft law also specifies cases in which consent is not required.

Definition of specific areas of responsibility among those in charge of the data, including duties such as information, confidentiality, adoption of security measures and reporting breaches.

Adoption of standards for handling personal data classified as sensitive, such that they may only be processed when the data holder has given their free, informed and explicit consent. “Sensitive “data concerns health, biometrics, biological profiling and geolocation, as well as data about minors.

Regulation of international transfer of data; data may be passed to countries deemed to have suitable legislation and certain conditions are established, such as prior notification of the supervisory authority, in the case of data transfer to countries deemed to have insufficiently comprehensive legislation.

A Data Protection Agency is to be set up, which will regulate, supervise, enforce and penalise non-compliances with the law. Penalties may range from a written warning to fines of between 1 and 5,000 UTM (monthly tax units), or in exceptional circumstances the shutdown of data treatment operations.

Beyond Financial Inclusion: Financial Health as a Global Framework

The report uses a set of indicators to measure the financial health of consumers in the developing world, which can be used as a frame of reference and a standardised conceptual structure.

Whether they are in developed or currently developing countries, individuals share a common aspiration for financial health and this is a significant, powerful framework that can be achieved throughout the world.

The indicators also enable the financial inclusion industry to measure outcomes by the meaningful improvements to people's lives.

Atlas of Sustainable Development Goals 2017: World Development Indicators

The Atlas*, published by the World Bank, focuses on 17 Sustainable Development Goals that allow trends to be analysed and challenges identified.

The Sustainable Development Goals are: No poverty; Zero hunger; Good health and well-being; Quality education; Gender equality; Clean water and sanitation; Affordable and clean energy; Decent work and economic growth; Industry, innovation and infrastructure; Reduced inequalities; Sustainable cities and communities; Responsible consumption and production; Climate action; Life below water; Life on land; Peace, justice and strong institutions; and Partnerships for world development.

The report argues that by achieving these targets and by improving methods, practices and working on the different areas, it will be feasible to build a fairer world.

Click here to read the document: http://datatopics.worldbank.org/sdgatlas/

* World Bank. 2017. Atlas of Sustainable Development Goals 2017: World Development Indicators. Washington, DC: World Bank. doi:10.1596/978-1-4648-1080-0. License: Creative Commons Attribution CC BY 3.0 IGO

Social regulation of rural property

The Government is designing the regulatory framework required to implement its “Final agreement to end the conflict and build a stable and lasting peace”, to which end the Ministry for Agriculture has published a draft law with the regulations needed to push through the policy of social regulation over rural property in Colombia, which has been declared for the public good and in the general interest.

This set of regulations starts from the premise that the social regulation of rural property entails democratising access to land for landless farm labourers or those without enough land, particularly rural women in the communities most affected by extreme poverty, emigration and conflict.

The “social regulation of rural property” is defined here as the set of processes involved in managing, allocating, recognising, clarifying, restoring, penalising breaches, consolidating and regulating the rights of use and ownership of property and the different existing relationships with the land, in order to propitiate the conditions that enable it to be used productively.

The text contains a declaration of principles, which include i) the general interest; ii) integrated countryside development; iii) structural change; iv) participation; and v) equal opportunities and gender-based approach.

It also regulates the substantive rules on access to land, covering issues relating to national boundaries, the beneficiaries of land programmes and their corresponding obligations, the manner of accessing land and the integrated subsidy for land access, among other matters.

Creation of the National Agricultural Innovation System

A new regulation within the Special Legislative Peace Procedure has created a fast-track legislative process for new laws relating to compliance with and implementation of the Peace Deal signed by the Colombian government and the FARC. The bill is currently at its first reading, being debated in both the Senate and the Chamber (joint commissions).

The bill defines the National Agricultural Innovation System [Sistema Nacional de Innovación Agropecuaria, SNIA in the Spanish acronym], creating tools to ensure that work done in research, technology development and transfer, knowledge management, training, skills and extended activities provides meaningful support for the innovation processes needed to improve productivity, competitiveness and sustainability in the Colombian agricultural sector.

The SNIA would report to the National System for Competitiveness, Science, Technology & Innovation (SNCCTI in the Spanish acronym), and would be managed by the Ministry for Agriculture & Rural Development.

The draft regulates the SNIA in matters, among others, relating to i) its structure, ii) lines of reporting,

and iii) its purpose.

In terms of its structure, the SNIA will consist of the National Agricultural Research & Development Division, the National Agricultural Extension Division and the National Training & Skills for Agricultural Innovation Division.

The draft regulation sets out that the SNIA's lines of reporting should function according to the country's public and private institutions' existing systems, whether national, regional or local. Thus, the SNIA will be accountable to, among others, the SNIA's own Senior Board and the technical committees set up by this Board, the Agricultural Science, Technology and Innovation panels set up by the Regional Competitiveness Commissions, as well as the specific Agricultural Development, Fishing, Forestry, Commercial and Rural Development Councils.

The SNIA has set itself the tasks, among others, of: i) helping to raise the country's productivity and competitiveness; ii) promoting and implementing research, technology development and knowledge management; ii) effectively coordinating sector research and technology development, and iii) managing agricultural producers' local, ancestral and traditional knowledge and skills in a participatory way.

Regulation of the Minority Shareholder Protection Law

Article 3 of the Minority Shareholder Protection Law 9392, 24th August 2016, has incorporated article 32 (c) into the Code of Commerce, requiring companies, legal persons and other legal figures regulated under this code to adopt corporate governance policies that have previously been approved by their Board of Directors or equivalent governing body.

The regulations for the above-mentioned article 3 were published in May 2017, setting out the general framework that Boards of Directors or their equivalents should take into consideration when issuing their corporate governance policies.

Governing bodies must adopt policies employing criteria that enable influence and conflicts of interest between individuals and companies to be identified; these policies must also make the dissemination of reports with annual results mandatory:

Criteria for identifying relationships of influence and conflicts of interest between individuals and institutions

It defines a formula for identifying relationships of influence or patronage and potential conflicts of interest between individuals and institutions that affect that institution's assets, with the institution concerned being required to make an assessment of the real nature of each potential relationship.

Criteria for information dissemination by MSMEs and all

entities are not listed on the securities markets

Transactions to purchase, sell, mortgage or pledge assets of all those companies, legal personalities and other legal figures subject to the Code of Commerce and classified as MSMEs by the Ministry for the Economy, Industry & Trade, as well as all others that are not listed on the securities market, for a sum equal to or exceeding ten percent (10%) of total assets at the end of the month before the transaction, must be reported to partners, shareholders or investors immediately, in a timely and regular fashion, accurately and effectively; they must also be published in the annual financial report.

Furthermore, the regulation provides definitions for a number of concepts such as: conflict of interest, control, joint control, corporate governance, material event and equivalent body.

The aim of the regulation is to encourage transparency and trust in markets and to protect investors.

New rules for commercial companies

Bill 231/2017, establishing new rules over companies and corporate governance in private-sector firms in Colombia, is at the proposal stage in the Colombian Senate. It has particular relevance for simplified limited companies [Sociedades Anónimas Simplificadas (SAS)], the accountability of company directors, lawsuits against directors, and on the commercial registration of companies, as well as some changes to the Companies Authority's powers.

The law would exempt SAS from holding annual general meetings, appointing a tax reviewer and preparing the management report, when the company's sole shareholder is a single natural person. Likewise, SAS may carry out any kind of economic activity apart from those requiring authorisation from Colombia's Financial Authority or from companies whose shares and other securities are listed on the National Securities and Issuers' Register (RNVE).

If the SAS equity is owned by a natural person (one-person companies), the chambers of commerce will as part of their normal duties record the control of these companies in the name of that person.

A longer list has been drawn up of persons to be considered "directors" of companies. Thus, in addition to the legal representative, the list will include the receiver, the Board members, the factor and all those with administrative roles according to the company's by-laws –whether they are the principals or their stand-ins, defined as directors under Law 222/1995. This list includes, furthermore: i) all those exercising senior management roles, such as the Chair, the Managing Director, the Deputy Chairs, the area managers and the financial officer, ii) the committees and other collegiate bodies fulfilling administrative functions, according to the company deeds that brought them into existence.

The bill explicit declares the directors to be subject to a duty of loyalty, and describes the obligations inherent to that loyalty. It also makes provisions for directors' joint and several liability in respect of

companies, shareholders and third parties for damages arising from their actions or failure to act, when this is in bad faith or in dereliction of duty. It also describes directors' related parties, for the purposes of managing conflicts of interest.

This bill seeks to introduce a requirement for chambers of commerce to issue electronic certificates validating the existence of companies and of their legal representatives, and of any other institutions required to register with these bodies. These electronic certificates will be taken as genuine.

Finally, the draft provides for jurisdictional powers to be created for the Companies Authority to resolve disputes relating to the interpretation and application of Company Law regulations.

Guide to fit and proper assessments

On 15th May, the European Central Bank (ECB) published its guide to fit and proper assessments (suitability) of members of boards of directors and senior positions in the significant credit institutions over which it exercises direct supervision.

This assessment, over which the ECB has exclusive authority, checks that credit institutions' decision-makers are properly qualified to carry out their roles. The composition of boards should be such that it contributes towards the efficient management of the entity, and informed decision-making, all designed to strengthen the safety and robustness of the banking sector as a whole.

With these guidelines, the ECB intends to clarify in details the policies, practices and processes that should be applied when vetting the suitability of said posts, and to unify the criteria used in order to achieve consistent supervisory practices, while still respecting national differences that may exist between eurozone countries.

Principles

The guide include the following principles:

Primary responsibility. Credit institutions bear the primary responsibility of selecting and nominating members of the Board of Directors who comply with the requirements for fitness and propriety; entities are required to provide all information to the supervisory authorities that may be necessary to assess their appropriateness in all cases.

Gatekeeper. The ECB has a safeguarding function, to guarantee that institutions meet the requirements of implementing solid governance structures and thus avoid the possibility of individuals posing a risk to the proper functioning of the management body.

Harmonisation of criteria and assessment models in eurozone countries, to reduce variations when assessing the suitability of candidates.

Proportionality and case-by-case assessment. Proportionality applies in

all phases of the assessment, with the supervising authority taking into account the size, nature and significance of the institution, as well as the complexity of the candidate's activities and the position being filled.

Due process and fairness. A well-defined process that ensures that the person is being assessed impartially.

Interaction with ongoing supervision of the institution's governance, particularly in relation to the composition and functioning of the management body.

Assessment criteria

The ECB will assess the suitability of the members of the management body, bearing in mind the following criteria:

Experience

They should have the theoretical (knowledge and skills) and practical experience (previous occupations) that are indispensable to carry out their functions, which will vary according to the specific role and the institution. As a minimum, members of the management body must have basic theoretical experience in banking and additional experience may be required depending on other factors that are important to the particular institution (nature, size, complexity, etc).

Experience will be assessed, in the first place, by taking as a reference thresholds that indicate sufficient experience. If these are not met, the person may still be considered suitable if this can be justified after a supplementary assessment.

Reputation

Those being assessed will necessarily have a reputation that ensures sound and prudent management of the institution; good reputation will be considered if there is no evidence to suggest and no reason to have a reasonable doubt about his/her repute.

Should legal proceedings be underway that might have an impact on the reputation of the designated person and on the regulated entity, the supervising body may study the circumstances that have given rise to the proceeding, to establish whether these are relevant in establishing the candidate's reputation.

Conflicts of interest and Independence of mind

The institution must have policies that identify, disclose, mitigate and prevent conflicts of interest, both actual and potential. The institution and the designated person should notify the competent authority about any perceived conflict, with a view to assessing whether the risk is relevant, in which case measures will be taken to assess the specific situation and preventative or mitigating measures taken, if necessary (unless national legislation has already defined the measures that should be taken).

Should the measures taken or the conditions imposed be insufficient to control the risks inherent to the conflict, the designated person cannot be deemed suitable.

Time commitment

Members of the governing body will dedicate the time necessary for performing their functions in the

institution. To analyse the time they put in, a quantitative assessment will be made, indicating whether the number of “directorships” that one person can hold in significant entities has been breached (the limit is one executive position and two non-executive positions) and a qualitative assessment, taking into account other factors that determine the amount of time that an officer can dedicate to their role (size and circumstances of the institutions in which they hold the position, the nature, scale and complexity of their activities, location or country in which these are based, etc).

Collective suitability

The regulated entity must conduct a self-assessment to identify any deficiencies in the suitability of its management body taken as a whole.

Assessment process

The assessment process will be triggered by a new appointment, a change in role or a renewal, by new facts or by licensing or qualifying holding procedure.

Interviews

The supervisory body may interview the parties being assessed to complete or verify certain information, with a proportionate, risk-based approach. An initial interview will normally take place for the purpose of information gathering; in the event of further clarity being required, another, more specific, one will be held. Interviews will be conducted by a panel of 2 or 3 people.

Decision

The supervisor will decide whether the individual is fit and proper to occupy the position on the institution’s management body. Favourable decisions may be made with: i) recommendations, ii) conditions, or iii) obligations.

Non-compliance with the conditions will render the person concerned unsuitable and they must resign from their post or not accept it.

Removal

Non-compliance with the requirements of the Framework Regulation for the Single Supervisory Market the ECB has the power to remove anytime members of the management body.

Guidelines for vetting suitability

and appropriateness

The Dominican Republic's Banking Authority has published its "Guidelines for vetting suitability and appropriateness of shareholders, board members, senior management and key personnel in financial intermediation institutions" (hereinafter, the "Guidelines").

The main aim of this provision is that financial intermediation institutions should assess significant shareholders (defined as those with more than 3% of their capital), members of the board of directors, senior management and key members of staff, before they join the entity, and afterwards, on an ongoing basis, in order to reinforce the quality of input by significant members of staff and, similarly, safeguard the checks and balances that are in place to prevent money laundering and the financing of terrorism.

The regulatory authority aims to reinforce the Dominican financial system with these guidelines, which provide closer supervision which will help to gain greater understanding of the main players in the system and how they are related to each other, preventing financial crises that might require restricting the activities of any institution or even to shutting it down.

Sworn statement

In order to comply with the Guidelines, institutions must set up internal policies and procedures for assessing and monitoring the suitability and appropriateness of the subjects being vetted, at least once a year.

Significant shareholders, board members, senior management and the institution's key staff will have to fill out a form, which they should sign and have notarised. This will declare:

Financial solvency, in the case of shareholders.
Integrity and reputation, in the case of shareholders, members of the board of directors, senior management and key members of staff.
Competence and skill-set, in the case of members of the board, senior management and key staff.

Assessment procedure

Financial intermediation entities should send these assessments to the Banking Authority, and keep a copy for their records. They should also have a list of the domestic and foreign companies with which members of the board of directors have any kind of relationship, whether as shareholders or in management.

Corrective measures

The Guidelines provide for the possibility of corrective measures if the suitability resulting from the assessment is not entirely satisfactory. The measures will vary depending on each individual's situation or deficiencies, but could be: changing their responsibilities, providing training, replacing or dismissing someone, etc.

New Corporate Governance Code for listed firms

In April, after a year of public consultation, the Malaysian Securities Commission, Bursa Malaysia, published a new corporate governance code for listed firms.

The code provides for the application of three basic tenets: leadership and effectiveness of the board of directors; risk auditing and management; and information disclosure and contact with stakeholders.

The new code introduces the Comprehend, Apply and Report (CARE) approach so that companies: (i) understand the benefits and take responsibility for applying good corporate governance practices; (ii) identify the processes necessary for implementing good practices and reinforcing corporate governance culture in the organisation, and (iii) explain in detail how they have applied these practices.

The new code operates under the principle of "apply or explain", instead of the better known "comply or explain" underpinning other codes such as those in Spain, Poland and Finland, The intention is for the principles to be applied and transform corporate culture in companies, rather than get them to merely comply with the letter of the code.

The document pursues 12 principal aims in applying the three tenets mentioned above:

Leadership and effectiveness of the Board of Directors

Responsibilities
Every company must be spearheaded by a Board that takes its leadership seriously and takes collective accountability for reaching its targets and goals.

The Board must set the entity's strategic goals, ensure there are enough resources to achieve them and review senior management performance. It will be responsible for deciding on the corporate values and for making sure that shareholder and other stakeholder interests are taken into account.

The company secretary will support the Board in implementing good corporate governance practices and in adhering to the norms and procedures as defined.

The Chair of the Board will be responsible for implementing good practice in the company's governance, leadership and effectiveness. The positions of Chair and CEO may not be held by the same person.

There must be a division of responsibilities between the Board, its committees and senior management.

The Board must have by-laws providing for this separation of responsibilities and these must be reviewed regularly and posted on the company's website. This regulation will specify the functions and duties of the organ of governance and its members, its management committee and senior management, as well as those issues and decisions that are reserved for board-level approval.

The Board must promote and maintain good conduct in the organisation that is conducive to integrity, transparency and fairness.

To this end, it must adopt a code of conduct and ethics for the company, defining and putting in place policies and procedures for managing conflicts of interest, prevention of abuse of office, anticorruption, anti-money laundering, etc. This code will be posted on the company website.

Likewise, the Board must set up, review and adopt the company's policies and procedures for whistleblowing.

Composition
The Board must take decisions objectively in the best interests of the company, taking into consideration its members' different perspectives and points of view.

At least half the Board members should be independent. In large companies, a majority of Board members should be independent.

An independent Director may remain on the board for a maximum of 9 years, after which (s)he may continue in the post as a non-independent Director. Nevertheless, if the Board wishes to retain the Director in his/her independent capacity beyond this 9-year period, this decision must be justified and submitted for annual approval to the company shareholders. After the twelfth year, the Board must submit this continuation for shareholder approval every year through a two-level process, which will be deemed successful if both groups of shareholders (majority and minority) vote the same way

Appointments of board directors and senior management should be based on objective criteria and take into account their experiences, abilities, age, culture and gender. On the issue of gender, every year the Board must publish its diversity policy, its targets on gender and how it intends to reach them. For large companies, at least 30% of Board directors should be female.

When identifying possible candidates, as well as using the internal support bodies or shareholder recommendations, the Board may be supported by independent sources who will put up the best qualified candidates for the position.

The Board Appointments Committee will take the lead on succession planning and appointing board members, the Chairman and the CEO; it will also manage the annual assessment of the board's effectiveness, making sure that an individual assessment of each director is carried out independently. This Committee will be chaired by an independent director.

Stakeholders should be able to know how effective the board and its members are.

To this end, the Board should conduct an annual assessment to determine its effectiveness, that of its members and its support committees, and should publish information as to how this has been done and the outcomes of this analysis. In large companies, this assessment should be conducted regularly by an independent expert to ensure that the process is objective.

Directors' pay
Board members' remuneration and that of senior management should factor in the company's aim of attracting and retaining talent in order to achieve the company's long-term goals. Remuneration policies should be approved using an independent and transparent procedure.

To set the remuneration of board members and senior management, the Board must adopt policies and procedures that take into account the company's demands, complexity and performance, as well as the abilities and experience required to comply with its long-term goals. These policies and procedures should be in permanent review and made available on the company website.

The Board will be supported by a remunerations committee that will develop these policies and processes, composed of non-executive directors, a majority of whom should be independent.

Stakeholders must be able to assess whether directors' and senior management's remuneration is proportionate to their individual performance, bearing in mind the company's performance.

For this reason, the information published about remuneration must be broken down specifying the director's name, and should include the salary, bonus, commissions, payments in kind and any other emolument. This information should also be published on the top 5 paid officers.

Auditing and risk management

The company should be supported by an effective, independent audit committee.

The audit committee may not be chaired by the Chairperson of the Board and must be made up only of independent directors, who will have the necessary financial knowledge and skillsets to perform their functions and understand the issues that this support body would be expected to deal with.

The committee must have policies and procedures that can evaluate the suitability, objectivity and independence of the institution's external auditor.

Companies should take decisions about the level of risk-taking they wish to adopt and the Board must be sure that the necessary checks and balances are in place so that any adverse event or situation that might harm the company's purpose can be mitigated and managed.
Companies should have a framework for governance, risk management and internal control, whose effectiveness will be assessed by stakeholders.

The audit committee will have to ensure the effectiveness and independence of the internal control function. Furthermore, the Board should disclose information about:

The objectivity and independence of staff in the internal audit area;
The number of resources available in this area;
The name and qualifications of the person responsible for the internal audit function; and
Whether the internal audit function is conducted in accordance with a predefined framework.

Information disclosure and contact with stakeholders

There should be continuous, effective, transparent and regular communication between the company and its stakeholders, which facilitates mutual understanding of their aims and expectations.

Stakeholders should be able to take informed decisions about the company's business, its governance policies and social responsibility.

Shareholders must participate in Annual General Meetings and have a close and effective relationship with the Board and senior management in order to be able to take well-informed decisions.

The Annual General Meeting should be called at least 28 days before the meeting. All the Board members should attend, and the Chairs of the support committees will reply to all the questions that shareholders ask them.

Responsible Business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises

This OECD* paper seeks to set out the key actions needed to conduct a process of due diligence, identifying the financial and reputational responsibilities and risks that investors should bear in mind, enabling them to deal with negative shocks.

Similarly, it concludes that, with a sound due diligence process, investments may contribute to reaching sustainable development goals.

* OECD (2017), Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises

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Research Report on Financial Technologies

The term Fintech is used to describe a range of emerging business and technology models that have the potential to transform the financial service industry.

The report explains how the use of Fintech seeks to disrupt the way in which financial services are supplied, indicating that, as with any change, it may trigger new risks.

Quintín

Quintin and Martin Naranjo, General Manager of Financiera Confianza

Quintín Quispe Tunqui lives in the Cuyo Grande Community, a community of less than 300 households, near Pisac, in the region of Cusco-Peru. Quintin has a carpentry workshop, he is also a farmer and a sheep breeder. To get to his home from Pisac, one has to go through an affirmed dirt road, and although there is cell phone coverage, electrical energy and a medical post in the same community; the nearest hospital is two hours away. Security in this community is not managed by the National Police, but by peasant rounds. Quintín lives and works at 3500 meters above sea level, at the limits of the physical infrastructure networks and at the limits of social safety nets.

Quintín presented his experience in Madrid, during the celebration of the 10th anniversary of the BBVA Microfinance Foundation (BBVAMF). He told us very clearly that no other bank came to where he lived and worked. That the banks cannot understand his situation and demand so many requirements that it is impossible for him to meet them all. For a bank, working with Quintín is not only a matter of risk appetite, it is also an issue closely related to the scale and costs of operations, delivery and follow-up. It is very difficult for anyone to contract at the limits of the networks of physical infrastructure and social protection.

To better understand any financial inclusion strategy, it is crucial to understand how the different networks that support the development of financial systems are articulated. Very few people confuse hardware with software; It is very simple to distinguish between a computer and a program. Between a phone and an application. But when we think about the internet and the web, things are a little less clear. It is no longer so obvious that the internet is a computer network and the web is a network of documents; that in one case it is a physical network and in the other it is a logical network. That, just as a program runs on a computer, a logical network also needs a physical support. The same is true of financial systems: financial systems are essentially logical networks of financial contracts. Networks of financial contracts, where the nodes are the financial institutions and their clients, and the links are the contracts. From this point of view, the problem of financial inclusion is simply the problem of extending this logical network to unattended sectors.

Naturally, to extend the scope of this logical network of contracts, it is also necessary to expand the physical network that acts as the platform that supports it. This physical network is the overlap of three sets of complementary networks: (1) First, there are physical infrastructure networks: roads, energy, telephony, internet, etc., which are an important component in determining the costs of transaction; (2) second, there are institutional or social protection infrastructure networks: schools, medical posts, police stations, courts, etc., which determine a good part of operational risks; and (3) the third network of this network overlap – the most important and the one that represents the scarcest factor – is the network of human capital, made up of the business advisors that comprise the commercial force of the microfinance industry.

Financial inclusion, understood as the extension of a logical network of contracts, is built on this living

network of human capital that moves at the limits of physical and institutional infrastructure networks. The war against exclusion is fought at these limits, by teams that move carrying all the firepower they are capable of, united by a shared mission, autonomous and dispersed. The war against exclusion is not aerial warfare, from afar, it is an infantry war, one-on-one, every day. For the living network of human capital to successfully confront this war and to generate better personal relationships and more real connections, the condition of locality, the capacity for empathy and the capacity for cultural understanding are fundamental.

Because what really makes this network alive is its ability to carry and transmit relevant knowledge using a financial protocol. However, this protocol is just a form of registering the transmission of knowledge. In this sense, the most important thing for achieving inclusion is that human capital networks reach, make contact, listen, understand, close the circuit, transmit, and increase collective knowledge.

In the BBVAMF our strategic intention is not only to identify clients of a certain scale that satisfy a certain risk appetite, in order to reach a certain efficiency. If that was all our strategic intention, we would never reach Cuyo Grande. What we do at the BBVAMF is to create and test the best technological alternatives for being able to accompany clients like Quintín in their effort for a better future. Our innovation effort seeks the best ways to build better, trusting and more personal relationships.

When we multiply the effort of connecting with a single client by 1.8 million, we immediately notice the magnitude of the challenge that today, after a decade, the BBVAMF has solved in the delivery, supervision, control and sustainability of a portfolio composed of very small operations. And when we multiply by the number of families still excluded, we immediately notice that we are just at the beginning, that solving the problem of scalability will require all our inventiveness, and that giving up is not an option.

The better the three complementary networks mentioned are, the more efficiently can financial inclusion be achieved. It will be possible to transmit relevant knowledge more efficiently and it will be easier to contract with Quintín. Financial inclusion is therefore not exclusively a financial problem, it is a general problem of inclusion to networks; a complex and general problem of transmission of relevant knowledge in both directions. It is, fundamentally, a problem of efficient deployment of human capital, a problem of communication and human interaction.

Anti-money laundering and financing of terrorism law

The anti-money laundering and financing of terrorism law 155-17 was passed on 1st June, revoking law 72-02 on laundering of assets from illegal drug trafficking.

The new law’s provisions cover:

a) A definition of actions that will be classified as money laundering, infractions preparing the ground for or facilitating money laundering and/or the financing of terrorism, as well as the applicable legal penalties.

b) Special investigation techniques, international legal cooperation and assistance, and precautionary measures applicable in the area of money laundering and combatting the financing

of terrorism (AML/CFT).

c) AML/CFT prevention and detection and measures against the financing of arms proliferation in prohibited activities. Administrative penalties applicable in the event of non-observance.

The law provides a comprehensive definition of key concepts. It specifies assets or goods that are susceptible to being used for illicit activities and names the competent authorities. It provides definitions of shell banking, agent banking, real beneficiary, objective circumstances, client, extended due diligence, simplified due diligence, preparing the ground for or facilitating crimes, serious offences, seizure or freezing of assets or goods that can be repossessed or confiscated, instruments, money laundering, suspicious transaction, bodies/institutions that oversee regulated entities, applicable penalty, politically exposed person (PEP), product, minimum wage, money or securities transfer services, without delay, regulated entity, AML/CFT approach-based supervision and front company.

Criminal offences

Articles 3, 4 and 5 of the law identify the criminal offence or offences associated with money laundering and the criminal offences of financing terrorism, indicating the sentences and fines applicable in each case.

Under this law, people incurring a criminal offence of money laundering will sentenced to between 4 and 10 years in prison, and fines equivalent to 100 and 400 multiples of the minimum monthly wage.

People who have incurred criminal offences linked to money laundering will be liable to sentences of between 6 months and 6 years in prison, together with fines equivalent to between 40 and 60 minimum wages.

Those who have incurred a criminal offence of financing terrorism will be sentenced to between 20 and 40 years in prison.

The law specifies that when a criminal offence can be attributed to a legal person, whatever the responsibility of the owners, directors, managers, administrators or employees, the company or enterprise in question will be subject to one or all of the following penalties:

a) A fine of at least 2000 multiples of the minimum monthly wage, or the value of the assets laundered

b) Definitive closure of premises or establishments

c) Prohibition from carrying out in the future activities of a similar nature as those in the exercise of which the crime has been committed, abetted or concealed

d) Withdrawal of licence, rights and other administrative authorisations

e) Liquidation of the legal person

Procedural provisions

In addition to the special investigation methods provided for in the Criminal Procedures Code, the law recognises the legitimacy of whistle-blowers and “controlled deliveries” in moving an investigation forward and when passing judgment on any infraction committed during the investigation.

Where no bilateral or multilateral convention has been ratified by the Dominican Republic, the authorities may provide the widest level of cooperation, based on the principle of reciprocity between

nations, applying the same principle to sentences that have been handed down by a judge in another sovereign state.

The law also empowers the authorities to make inquiries and obtain information in the name of their foreign opposite numbers and to set up joint investigation teams to carry out cooperative investigations and, where required, to sign bilateral or multilateral agreements.

Precautionary measures on property

The judge handling the case has the power to order, at the Public Prosecution Office's request, without prior notification or authorisation, an:

- Abduction
- Seizure or provisional freezing of property or banking products
- Block on the transfer of fixed assets

Without prejudice to the above, the Public Prosecution Office may adopt precautionary measures on an ad hoc basis, writing a resolution setting out its reasons, in those cases where a delay could endanger the investigation or cause the goods to be destroyed.

Regulated entities

The law classifies the following as entities having the obligation to detect and prevent ML/FT:

a) Regulated financial entities:

- Financial intermediation institutions
- Securities brokers
- Individuals who intermediate in currency swapping, exchange and remittance
- The central bank of the Dominican Republic
- Legal persons who are authorised or licenced to serve as trustees
- Cooperative Saving and Credit Associations
- Insurance and reinsurance companies and insurance brokers
- Investment fund management companies
- Securitisation firms
- Stock and securities brokers
- The central securities depository
- Issuers of initial public offerings of securities.

b) Non-financial regulated entities, understanding as such those natural or legal persons exercising other professional activities, whether commercial or entrepreneurial, that are liable to

be used for money laundering and the financing of terrorism (ML/FT):

Prevention and detection of ML/FT

Regulated entities must adopt, develop and execute a risk-based Compliance Programme that is suited to the organisation, structure, resources and complexity of their operations.

The programme should be rolled out in all domestic affiliates and subsidiaries abroad and must cover:

- Policies and procedures for AML/CFT risk assessment and mitigation strategies
- Policies and procedures to ensure high standards of hiring and continuous on-the-job training of its public officers, employees and directors
- System of disciplinary sanctions
- Code of ethics and good conduct
- External audit in charge of verifying the effectiveness of the compliance programme

The law lays down that financial groups and economic clusters should have a unified compliance programme.

Regulated entities should also develop policies and procedures that include due diligence based on potential risk, taking into account simplified, extended or reinforced measures concentrating on identification or diagnosis, measuring and control, monitoring and mitigation. They are required to ensure that they keep documents, data and information that is updated and appropriate to their levels of risk.

Furthermore, the law requires regulated entities to implement a methodology that allows them to identify, control, mitigate and monitor potential AML/CFT risk events; its scope should encompass the following risk factors or variables:

- Clients
- Products and/or services
- Geographic areas
- Distribution channels

The law requires regulated entities to store their records of transactions, due diligence measures, account files, commercial correspondence and the outcomes of analyses made, for at least 10 years after the commercial relationship has ended or after the date of the one-off transaction. They must also appoint a Compliance Officer, who should hold a senior position and have the technical skills necessary, to be responsible for supervising strict observance of the compliance programme. This officer will liaise between the regulated entity and the Financial Analysis Unit (FAU) and the supervisory body.

Administrative sanctions

Before the competent authority opens administrative disciplinary proceeding, it will check whether the supposed administrative actions or breaches would be classified as criminal offences. If they do, they must be reported to the Office of Public Prosecutions so that the corresponding investigations can be opened.

Regulated entities, public officers and employees are liable for administrative sanctions if they do not comply with the law. To this end, the breaches have been classified as very serious, serious or minor.

People in positions of administration or leadership in the regulated entities will be held accountable for the offences that are attributable to the legal persons where they carry out their roles.

The administrative sanctions that are applied to regulated entities will depend on whether the entities are in the financial sector. The sanctions will be applied as follows:

a) Financial regulated entity:

- Very serious offence: Fine of DOP5,001,000.00 to DOP10,000,000.00
- Serious offence: Fine of DOP2,500.001.00 to DOP5,000,000.00
- Minor offence: Fine of DOP1,000,000.00 to DOP2,500.000.00

b) Non-financial regulated entity:

- Very serious offence: Fine of DOP2,000,001.00 to DOP4,000,000.00
- Serious offence: Fine of DOP1,000,001.00 to DOP2,000,000.00
- Minor offence: Fine of DOP300,000.00 to DOP1,000,000.00

Precautionary freezing of assets by virtue of the United Nations Security Council resolutions

The law delegates on regulated entities the task of verifying whether a client, real beneficiary or potential client figures on the lists issued by United Nations by virtue of the United Nations Security Council resolutions 1267, 1988, 1718 and following. If they are found to be on these lists, the regulated entities must proceed without delay to freeze the goods or assets of the client and/or real beneficiary, and must also notify the Public Prosecutions Office and the FAU of the measures taken and keep those assets frozen unless they receive notification from the courts to lift this measure.

Non-compliance with the indications in the paragraph above is classified as a very serious administrative breach.

Institutional organisation

The Government of the Dominican Republic has an Anti-Money Laundering & Financing of Terrorism committee, which is a collegiate body in charge of the efficient running of the system that prevents, detects, controls and combats money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction. It is made up of representatives from:

- Inland Revenue Ministry, which occupies the Chair
- Attorney General of the Republic
- Ministry of Defence
- Chair of the National Drugs Council
- Chair of the National Drug Control Department

- Banking Supervisor
- Securities Supervisor

The Financial Analysis Unit (FAU) department acts as the Committee's technical secretary and takes part in the meetings as a non-voting member.

The bodies that oversee regulated entities also have the power to regulate, supervise, oversee, scrutinise, demand information, conduct extra and in situ inspections, and to impose sanctions on regulated entities and their staff, applying a risk-based approach with policies and procedures that have the following stages:

- Identification or diagnosis
- Measuring and control
- Monitoring and mitigation

Guidelines for Integrated Risk Management

The regulations on the guidelines for Integrated Risk Management, approved by the Dominican Republic's Monetary Policy Board on 16th March 2017, which came into effect on 18th May 2017, set out the minimum criteria and guidelines that financial intermediaries (FIs) must apply, that is, commercial banks, savings & loan banks, credit corporations, savings & loan associations, and public and mixed institutions, to implement and stick to an appropriate integrated risk management framework, in line with each institution's type, size, complexity, risk profile and systemic importance, setting up good practices in integrated risk management.

Integrated Risk Management Framework

The regulation lays down that every institution must have a formal, integrated and permanent risk management framework:

Formal: containing the policies, procedures and standards that describe the risk function and practices for measuring, mitigating and monitoring risk exposure.
Integrated: providing a global vision of all types of risk being taken on;
Permanent: forming part of the entity's corporate strategy.

The Board of Directors and the institution's senior management will be responsible for assessing the effectiveness of the Risk Management Framework on a regular basis, in addition to the mandatory review conducted by the internal audit function.

Risk management structure

FIs must have an integrated risk management structure, adapted to their activity, size, complexity and risk profile, and consisting of an Integrated Risk Management committee, an integrated risk management unit and a specialist risk management unit.

Integrated Risk Management Committee: in charge of ensuring that the financial intermediation entity's transactions are aligned with approved targets, policies, strategies, procedures and risk threshold & appetite levels, reporting to the Board and fulfilling the responsibilities set out in the Corporate Governance Regulations. It is made up of members of the Board and chaired by an independent external member, with the participation, as a member of the committee, of the Head of the integrated risk management unit and any other officer designated by the Board.
Integrated Risk Management Unit: in charge of overseeing that the FI's integrated risk management function is implemented and working appropriately according to the policies set by the Board. Depending on the entity's level of complexity, the Head of the Unit may delegate specific risk tasks in the specialist risk management units; this structure will be reviewed regularly to verify that it is fit for purpose and independent from the business and operational areas.

The unit head will have a seat on the Integrated Risk Management Committee, and will be given the authority and powers necessary to comply with their responsibilities, reporting on administrative matters to the FI's CEO and on functional issues to the committee.

Specialist Risk Management Unit: this unit works on policy and procedural design, through the body responsible for integrated risk management, and alerts the committee of exposures that may require additional layers of control. Staff in this unit must have the academic, practical and technology skillsets necessary to carry out their functions properly, and the unit will be overseen by the head of the Integrated Risk Management Unit.

The role of the Board of Directors

The Board of Directors is in charge of ensuring compliance with appropriate control and monitoring over the integrated management of the risk to which the FI is exposed.

Every year, in the 60 (sixty) day period following the submission of audited financial statements, the FI should send the banking authority a certified statement from the Board, signed by the Chair and the Company Secretary, to the effect that:

The firm's integrated risk management complies with the minimum regulatory criteria and requirements.
The Board is cognisant that the information submitted by senior management, the reports by the audit and integrated risk management committees and the external assessment of the integrated risk management process, as well as the corrective measures taken are all recorded in the minutes.

Likewise, as an appendix to the certified statement above, the FI must submit a certified copy of the minutes of the Annual General Meeting of shareholders or associated depositors; these minutes should state that the FI's integrated risk management report was presented at the AGM.

In the case of branches or subsidiaries of foreign banks, the parent company's head of risk management must validate this certificate.

Methodologies, information and capital assessment

FIs may decide on the levels of risk exposure they assume by using the regulatory guidelines and

requirements for different types of risk. Thus, depending on their nature, size, complexity, risk profile and systemic importance, they may use internal tools, methodologies and models in order to identify, quantify, assess, oversee, monitor or mitigate and report on risk exposures, as well as any of the methodologies established by the banking authority.

Stress tests: these allow the FIs to analyse the impact of different scenarios on the types of risk to which they are exposed. These tests must be carried out regularly on the different types of risk, which will enable the identification of sources of potential tension and ensure that the existing exposures of each risk taken on are proportionate to the established risk threshold, using the results to adjust risk strategies, policies and positions, as well as to develop and enhance contingency planning.
Business Continuity and Contingency Management Planning: FIs must have Business Continuity and Continuity Management plans in place in order to guarantee their ability to operate and minimise losses in the event of an emergency which interrupts the normal flow of business. There must be continuity plans for those processes identified as highly critical, while for the remainder it will be sufficient to have designed contingency plans; these plans and their updates should be sent to the banking authority. If the contingency plans are activated, the authorities should be notified immediately, and must be kept abreast of their progress and of when they are halted.

FIs must be capable of providing their Board and involved areas with the information necessary to take informed and appropriate decisions on managing the risks to which they are exposed.

FIs are required under this regulation to have an integrated and overarching internal process for assessing their capital depending on their risk profile and appetite, and a strategy that allows them to maintain their capital levels over time. The Board will view capital planning as a fundamental requirement in achieving its strategic aims and will determine its capital level according to its risk profile and the fitness of its risk management process and its internal control mechanisms, bearing in mind both external factors and the effects of the economic cycle and the current economic situation.

The outcomes of policy applications and of developing processes to assess capital adequacy must be recorded in an annual Capital Self-assessment Report, which will be approved by the Board and submitted to the banking authority by 30th April every year, with information to 31st December of the previous year and containing an estimation of the capital planning figures for the following 2 (two) years.

Adaptation

In the event of regulatory non-compliance by the FI, such administrative sanctions as provided for by the law and its regulation may be applied.

FIs will have 180 days, starting from the date the regulation was published, to make the necessary changes to comply with its provisions.

Fintech and the Financing of Entrepreneurs: From Crowdfunding to Marketplace Lending

The paper argues that loans using Fintech can help small and medium-sized companies and analyses the benefits, costs and types of loan, as well as the role that regulation will play in the development of Fintech.

Special Agrarian Restructuring Law

As part of its Agrarian Debt Restructuring reform, the Peruvian Congress has passed a Special Agrarian Restructuring Law, to provide financial facilities to those farming producers affected by natural disasters in areas declared to be in a state of emergency resulting from the Coastal Niño phenomenon. The law affects those with unpaid debts with institutions in the financial system that are regulated by the Banking, Insurance and Pension Fund Administrators authority (IFIs), and makes provisions to eliminate the unpaid debts.

The Special Agrarian Restructuring Programme (i) gives farming producers affected by natural disasters who are in areas that have been declared to be in a state of emergency, and who have outstanding debts with IFIs, a discount coupon; and (ii) refinances the corresponding debt balances, after applying this coupon.

IFIs will determine who is eligible to be a beneficiary of the Special Agrarian Restructuring Programme (SARP); the deadline to present applications is 31st December 2017.

The SARP will cover debts with an unpaid balance of up to 5 tax units (UIT)* or their equivalent in US dollars, to which end the Ministry of the Economy and Finance has been authorised to transfer PEN 20 million to Agrobanco, which in its turn will be responsible for managing the SARP.

The discount coupon will have a ceiling of 1.5 tax units on the debt, the debt being the capital, interest, late payment penalties and other expenditure incurred.

Debt restructuring and reprogramming

Restructuring of the outstanding debts will be applied as follows:
80% discount coupon on debts of between 1.5 and 3 tax units or the equivalent in US dollars, of the debt without capital.
50% discount coupon on debts of between 3 and 5 tax units or the equivalent in US dollars, of the

debt without capital.
The balance of the remaining debt will be refinanced at interest.

* One UIT (Unidad Impositiva Tributaria) is worth PEN 4,050.00 in 2017

Is your nonfinancial performance revealing the true value of your business to investors?

After three years of surveys, interviews with investors, global events and initiatives, the report concludes that non-financial information (about Corporate Social Responsibility factors) is increasingly important and influential when making investment decisions.

Philanthropy for Development. Ten Aspirations for 2030

Panel statement made by Claudio Gonzalez-Vega at the 2017 Annual Meeting of the Global Network of Foundations Working for Development (netFWD), on March 16th at the OECD Headquarters, Paris.

The intimate relationship, the romance, between the BBVA Microfinance Foundation and the 2030 Development Goals has not been a recent affair. It dates back to the origins of the Foundation, and it has been imprinted in its DNA.

The Foundation was created ten years ago by the BBVA Financial Group, as an initiative within its social responsibility strategy. At the same time that it was granted full autonomy from its founder, the Foundation has invested its endowment in acquiring, merging, transforming, and strengthening local organizations into six microfinance institutions in Chile, Peru, Colombia, Panama and the Dominican Republic. While the Foundation is a not-for-profit entity, these financial institutions pursue strategies of constrained profit maximization, seeking with their earnings to guarantee both their eligibility for prudential regulation as well as their sustainability, substantial breadth of outreach, and quality of services for their clients.

In pursuing a mission of facilitating the sustainable socio-economic development of poor and vulnerable populations in these countries and while employing their own approach of *productive, responsible finance*, the six financial institutions in the Group currently provide loans, deposit facilities, insurance and other services to over 1,800,000 poor household-enterprises. With a clear

focus on gender rights, about 58 percent of the clients are female borrowers.

Since the Foundation started documenting the social performance of the Group, six years ago, between 80 and 90 percent of the borrowers reached by the institutions in the Group have been below a *vulnerability line*, defined as three times the poverty line of the corresponding country. In the case of those borrowers who were below their country's poverty line, when they were first reached by these institutions, and who have continued in their relationship with the institution for at least four to five years, 69 percent of them would by now be above this critical threshold, while 10 percent of the borrowers would have fallen below the poverty line. This represents a net gain of 59 percent among the institutions' borrowers, in the battle to rise above poverty.

We do not claim, however, that the Group has pulled them out of poverty. Rather, by taking advantage of their own productive opportunities, with their own skills and efforts, and as the circumstances of their environment have allowed, they have pulled themselves out of poverty. At the same time, however, it is true that the institutions in the Group have provided their clients with valuable financial services, which have served as powerful tools that have assisted them in succeeding in their endeavors and in the pursuit of their own particular dreams.

It has been in recognition of these aims and accomplishments that the BBVA Microfinance Foundation has been invited, along with other 12 institutions, to participate in the *Private Sector Advisory Group* for the United Nations *Sustainable Development Goals Fund*, created in 2015.

As we look forward to the Foundation's own activities and those of other philanthropic organizations by the year 2030, I want to share with you ten propositions that emerge from the aims of our current practice. They represent, not a forecast for 2030, but rather a set of normative guidelines to follow as we move forward in pursuing the development goals. They are not commandments. They are more like ten aspirations.

First, philanthropy for development should have a strong foundation in shared values. An ethical commitment should shape the behavior of all teams, at all levels of the organization. This commitment should then be reflected in the strong resolve to keep all actions and interventions focused on a well-defined mission. At the Foundation, it has been this commitment that has resulted in our insistence on *responsible* finance.

Second, philanthropy for development should be centered on the client (more generally, on the beneficiary of its efforts). This client focus should mostly require tolerance and a respectful attitude, reflected in a willingness, not only to *learn about the clients* and their particular individual beliefs and preferences (in order to respond to these preferences and demands, rather than to impose terms and conditions of services from above), but also a willingness to *learn from the clients* (*i.e.*, the depositor or borrower, the patient, the student, or any other beneficiary of these services), to understand their dreams and value expectations and to gain insights into new ideas to improve the delivery of the services offered, directly or indirectly, by the philanthropic organization. The clients, who possess valuable stocks of knowledge, have much to teach us. At the Foundation, we strive to learn much about how the Group's services are impacting their lives.

Third, philanthropy for development should be based on the efficient management of knowledge. The world has already been experiencing very rapid (what seems almost exponential) change, combined with ever-increasing complexity and mounting uncertainty (associated more and more with systemic events). By 2030, these challenges will have gathered even greater speed.

In this new world, knowledge will play an increasingly central role. Only rapidly evolving knowledge, applied to all choices and actions, will make it possible to face the resulting challenges and take advantage of the new opportunities. From this perspective, philanthropy for development should be mostly about an optimal management (acquisition, accumulation and use) of knowledge.

Fourth, philanthropy for development should be based on cooperation and on the creation of useful *collective know-how*. Most, if not all, of the 2030 development goals cannot be achieved as a result of individual, isolated efforts. They will require the coherent combination of the efforts of teams, within the organization and across the whole spectrum of its peers and stakeholders.

Fifth, the progress of knowledge and the construction of collective know-how will be most successful in organizations that value all dimensions of diversity. Indeed, the evolution of philanthropy for development will require access to multiple and diverse sources of knowledge, it must listen to a variety of voices, it must be tolerant and it must promote openness and freedom, in Amartya Sen's sense.

The BBVA Microfinance Foundation represents an unusual instance of how to manage, combine and coordinate diverse layers of knowledge, in order to address the complexities of a particular philanthropic challenge: to foster the sustainable socio-economic development of excluded and vulnerable segments of the population in low-income countries. This arrangement has included an authentic philanthropist (the BBVA financial group), a not-for-profit facilitator in the development and adaptation of financial technologies and a producer of public goods (the BBVA Microfinance Foundation), a group of implementing practitioners (the set of local microfinance institutions that pursue constrained profit maximization in the provision of their services), and a multitude of individual clients (vulnerable household-enterprises, with diverse productive opportunities and their own dreams and aspirations). Each one of them possesses some kind of knowledge, indispensable for the success of the undertaking. Separately, however, each one possesses little power to generate any momentous impact. The central challenge for the Foundation has been, therefore, to find ways for achieving the most efficient combination of these diverse stocks of knowledge, to best fulfil the objectives incorporated in its mission.

Sixth, philanthropy for development must be efficient, not wasteful or misdirected. The 2030 development goals are considerably ambitious and, yet, the resources to fulfil them are significantly scarce. Philanthropic ends always require an efficient use of limited resources. For this reason, the road to social justice and sustainable development must be paved with efficiency. At the BBVA Microfinance Foundation, we rely on outstanding management, both globally and locally, to achieve the best possible results from our endowment and the efforts of all teams involved.

Seventh, philanthropy for development must be sustainable, in every dimension of its activities. The intervention must be institutionally sustainable, to be able to offer permanent rather than transitory and ephemeral services. It must be environmentally sustainable, as well, to be able to respond to inter-generational demands for its services and to behave as a responsible citizen of the world. Most importantly, it must be sustainable at the client level, in order to generate trust among its beneficiaries and their expectation that they will be able to rely on its services as needed in the future. This should be the inescapable aim of *philanthropy with sustainable outcomes*. From this perspective, the entities in the BBVA Microfinance Foundation Group focus their efforts on *productive finance*, where the client has access to a productive opportunity capable of generating surpluses and mitigating risk, at the client level, over time. Only if these conditions exist, access to finance will make the escape from poverty sustainable.

Eighth, philanthropy for development should be guided and governed by proper regulation. That is, it will require a regulatory framework that, at the same time that it protects the beneficiaries and society, at large, it is conducive to innovation and is not constraining of novel initiatives. While the absence or insufficiency of regulation may not offer an institutional environment favorable to the evolution of responsible philanthropy, a distorting or repressive regulation will kill it. A proper regulatory framework would privilege transparency and accountability and, in particular, it should lead to structures of compatible incentives that mold the behavior and induce all parties and stakeholders to contribute to the 2030 development goals.

Ninth, philanthropy for development organizations should be willing and able to rigorously measure

the results of their interventions, as a critical management tool and as a means for the accumulation of knowledge that is necessary to build sustainable organizations and sustainable relationships with the clients who, as a result, will be able to capture long-term benefits from these relationships. For this reason, at the BBVA Microfinance Foundation we have developed novel methods that allow us to follow the evolution and fate of our clients over time and adapt our services to their particular circumstances. These indicators are included in our yearly *Social Development Report*. This longitudinal measurement has revealed that the escape from poverty traps takes time and, for this reason, that what matters the most is the development of long-term relationships with the clients.

Tenth, philanthropy for development will require alliances and partnerships, (i) to share new knowledge and encourage the adoption of good practices, in order to expand outreach, (ii) to jointly create public goods and share social benefits, when they exceed private benefits, and mitigate social costs, when they exceed private costs, (iii) to generate economies of scale and of scope and, in general, (iv) to induce the synergies that emerge from well-designed complementarities. As a result, the Foundation has developed alliances with multilateral organizations and academic institutions.

In sum, to make a difference by 2030, philanthropy for development should be value-based, client-centered, knowledge-intensive, cooperation-enhanced, diversity-nurturing, efficient, broadly sustainable, properly regulated, with measurable results, and alliance-builder.

By incorporating these aspirations in our daily practice, at the BBVA Microfinance Foundation we expect to be where we believe we can be most useful and, in particular, where we believe we can learn the most.

Sir Angus Deaton, Nobel Memorial Prize in Economic Sciences

Professor Sir Angus Stewart Deaton is a microeconomist specializing in empirical issues. He was born in Scotland and is now both an American and a British citizen. He has been working in the United States for almost 35 years.

He graduated from Cambridge University, where he wrote his Ph. D. thesis, Models of consumer demand and their application to the United Kingdom, and was later awarded a fellowship at Fitzwilliam College. He worked for seven years in the Department of Applied Economics in this university.

He was professor of Econometrics at the University of Bristol, before moving to Princeton University in 1983. There, he is the Dwight D. Eisenhower Professor of Economics and International Affairs Emeritus, in the Woodrow Wilson School of Public and International Affairs and in the Economics Department.

In 1978, he was the first ever recipient of the Frisch Medal, an award given by the Econometric Society every two years, for applied (theoretical or empirical) research published within the previous five years in its journal, Econometrica. He is a Fellow of the Econometric Society, a Fellow of the British Academy, an Honorary Fellow of the Royal Society of Edinburgh, a Fellow of the American Philosophical Society, and a member of the National Academy of Sciences of the United States. In

2009, he was President of the American Economic Association.

In 2011, he won the BBVA Foundation Frontiers of Knowledge Award for Economics, Finance and Management, for his central contributions to the theory of consumption and savings and to the measurement of economic wellbeing. His current research focuses on poverty, inequality, health, wellbeing, and economic development, and he has recently co-authored publications on mortality and morbidity with his colleague and wife, Professor Anne Case. In 2013, Deaton published his acclaimed book, The Great Escape: health, wealth, and the origins of inequality.

In 2015 he was awarded the Nobel Memorial Prize in Economic Sciences for his analysis into the workings of demand, consumption and income, poverty and welfare.

Professor Deaton, you have recently attended the BBVA Microfinance Foundation Forum on Financial Inclusion and Development as a keynote speaker. How was the experience? What, in particular, caught your attention?

I was greatly impressed by the size of the gathering, and by the attention and evident interest of the audience. The four people from Latin America (clients of the BBVA Microfinance Foundation in Chile, Peru, Colombia and the Dominican Republic) were very interesting, and made the session very lively and very real. And H. M. the Queen was extremely gracious and clearly deeply involved in the meeting and the projects.

What were the key messages in your speech?

My message was that the world is much better off today than in the past, though development is never continuous. We live longer and are richer. This came about because of the power of reason, and particularly from the invention and spread of useful knowledge. I argued that the methods and techniques of microfinance are a kind of useful knowledge that can benefit poor people worldwide.

When did your interest in Economics and Econometrics really start? And what triggered this interest?

When I was a student at Cambridge in the 1960s, I started applying the mathematics that I knew to economics and econometrics. Like many at that time, I read Samuelson’s text*, and was captured by its applicability to real life and to improving the lives of people.

What would you consider to be your most important conceptual contribution, Professor Deaton? How did this idea influence your subsequent research?

I have many favourites, and it is hard for me to choose. I might single out my work on how inequality cumulates over the life cycle, and how luck turns into inequality. That was work with Christina Paxson, and we wrote several papers around those ideas.**

What has been, for you, the most unexpected and surprising

result of your research? Why?

Perhaps what became known as the “Deaton Paradox” that the permanent income hypothesis implied that consumption was less smooth than income, even though it had been invented to explain precisely the opposite. It is difficult to abandon something that you have long believed was true, and very satisfying when you eventually figure out what is going on. I would say much the same on my work with Christina Paxson on food paradoxes, and that the statement that Engel made about family size and the food share was not only not obvious, as had been previously thought, but it was a paradox that made no sense!***

The BBVA Microfinance Foundation has emphasized the supply of savings deposit facilities and of insurance, in addition to credit. In your early research you focused on the importance of consumption smoothing and on the prevalence of precautionary savings among the poor. How much does the role of financial institutions in offering safe and convenient tools to facilitate these processes matter?

It matters a lot! Households need to be able to move resources through time, and they need to have insurance against risk, and financial institutions allow them to do both of those things in a way that would be hard or impossible without them.

In your recent book and in other occasions, you have acknowledged your interactions with Professor Amartya Sen. Would you tell us what are the most important ways in which Professor Sen has influenced your work?

He has always emphasized the ethical and philosophical issues in economics, and that has been important to me.

Would you consider financial inclusion to be one of the “freedoms” that Professor Sen associates with development? What would be the contribution of financial inclusion from this perspective?

I think of financial inclusion as one of the tools, or part of the infrastructure, that makes people’s lives better, and thus enhances their freedom.

In measuring poverty and wellbeing you have used unconventional indicators, such as health, height or happiness. What brings economists to talk about happiness?

To what extent do you believe that this approach adds as a guide to policymaking?

Economists have always talked about “utility,” and historically utility and happiness are the same thing. We have lost that, and it is well worth the effort to try to bring it back.

What are the actual, deeper causes of poverty, Professor Deaton? From this perspective, what could be done to alleviate poverty?

The deep cause of poverty is lack of freedom. We need to bring to bear the tools to make people free, especially useful knowledge. Some can be transmitted from one place or time to another, but much has to be worked out by countries and individuals on their own.

Is the incidence of world poverty actually declining? Is this an irreversible trend?

Yes, and I hope so.

Is inequality an inherent part of progress? If so, what should be done about it, in order to lessen the potential social harm from inequality while not destroying its positive incentive effects?

Yes, inequality is usually inherent in progress. The key is to make sure that no one gets left behind for too long. That requires good institutions, and good use of knowledge.

In general terms, where are we headed? Are you pessimistic or optimistic about the future?

I hope we are headed onwards and upwards, as in the past. So I am optimistic. But past performance is no guarantee of future performance, as the financiers have to tell you!

* Paul A. Samuelson, Foundations of Economic Analysis Harvard University Press, 1947 and 1983.

** Angus Deaton and Christina Paxson, “Intertemporal choice and inequality”, Journal of Political Economy, 1994.

*** Angus Deaton and Christina Paxson, “Economies of scale, household size, and the demand for food”, Journal of Political Economy, 1998.

Towards effective data protection in Ibero-America

Most countries have regulated people's right to personal data protection using Habeas Data. However, more and more countries are now creating specific regulation to cover this right.

The report has collated data protection regulations in Lima, Barranquilla, Buenos Aires, Santiago de Chile, La Plata, Riobamba, Panama City, Mexico City and San José, arguing for the need to standardise criteria, highlighting the role of the Ibero-American Data Protection Observatory as a bridge for communicating between countries, making it possible to develop rigorous criteria in a globalised world.

The prudential regulation of the financial system and its influence on the development of microfinance

This Research Paper was written for the International Master in Microfinance for Entrepreneurship at the Universidad Autónoma de Madrid**,** under the direction of Claudio González-Vega (Ph.D.). The research has attempted to answer the question: what would be the most appropriate way of regulating, from the government´s perspective, the development of microfinance, particularly in the global environment under which financial regulation has been at the center of the debate, after the events of the international financial crisis?

The microfinance industry shows a number of features that make it different from the traditional banking business. As a result, the prudential regulation and supervision frameworks should include in their vision these specific characteristics, in particular a recognition that it deals with a different risk profile, although this should not imply less market discipline. On the contrary, countries such as Peru and Colombia have been able to combine the implementation of strict norms (with good progress in the implementation of Basel III) with the development of microfinance activities, by decreeing advanced guidelines relating to more flexible amounts and terms to maturity of loans, interest rate determination and the protection of the financial consumer. Similarly, the Bolivian experience during the crisis at the end of the nineties shows that a competitive microfinance system, open to innovation in credit technologies, can provide the industry with the ability to favorably overcome periods of macroeconomic turbulence, showing an even more efficient performance than traditional banks.

To read the research paper, click here.

The regulation of Microfinance

What we today know as microfinance has been the outcome of a series of remarkable innovations in the production and delivery of various types of financial services to populations that had not previously had access to institutional finance. Thus, the true essence of microfinance has not merely been the very small size of the transactions or the fact that the clients are poor and vulnerable (certainly, two major barriers to the emergence of financial transactions).

Rather, the essence of microfinance has been the development and implementation of innovations in financial technologies (that is, new ways of doing things) that have made it possible to prudently manage the risks associated with the target clientele and to lower the costs accompanying very small transactions, much below the levels associated with the use of traditional banking technologies in these market segments.

Thanks to these innovations, the microfinance revolution evolved from a few modest, donor-intensive, non-government (NGO) initiatives into a heterogeneous financial market sector, where a growing number of profitable, self-sufficient, commercially viable actors have been capable of gradually delivering a broad range of financial services, to assist their clients in the pursuit of diverse individual goals. With their transformation, from microcredit entities into microfinance intermediaries, with the intent of mobilizing deposits from the public, the need to prudentially regulate them emerged.

“The prudential regulation and supervision of microfinance institutions became inevitable once they became deposit-taking institutions”

Thus, while other types of microfinance might need (or not) some sort of regulation, the prudential regulation and supervision of microfinance institutions became inevitable once they became deposit-taking institutions. Prudential regulation is the legal framework whose objective is to guarantee stability as well as competition and efficiency in financial markets, setting limits and constraints to the behavior of financial intermediation institutions and, at the same time, offering depositors reasonable protection, shielding the use of their deposits from imprudent behavior.

Prudential regulation and the means to supervise and guarantee its application are critical in discouraging the opportunistic behavior that may emerge among deposit-taking institutions, given the temptation to take excessive risks when seeking higher profits. From this perspective, the purpose of prudential regulation of microfinance would be the same that justifies it in the case of other intermediaries. The important question then is, not if to regulate or not, but how to regulate.

“Digital technologies are transforming finance, increasing the number and variety of new entrants, and challenging its regulation at unprecedented rates”

This matters because, in some cases, regulation may end up being an obstacle to financial market development. In this case, we talk about financial repression, defined as the framework of regulatory measures that distort the flows of funds and the allocation of resources, away from the market optimum. Some of the tools of financial repression are interest-rate ceilings and compulsory portfolio quotas, confiscatory reserve requirements, the inflation tax and overvaluation of the domestic currency, excessive market entry restrictions and unsuitable provisioning and other prudential norms. Despite their return in some countries, the historical evidence has shown the harmful influence of

these policies, which in the case of microfinance cause even greater damage and hamper the outreach of marginal clienteles.

Failure in financial markets emerges from pooling equilibria, when different risks are treated as if they were the same. Given imperfect and asymmetric information, all loan applicants look the same. When lenders cannot separate them by risk type, they offer all borrowers the same contract. In fear of adverse selection, lenders engage in non-interest credit rationing. Microfinance as an innovation has increased the scope of differentiation. Rather than evaluating all loan applicants by the assets they pledge as collateral (mortgages), the best microfinance institutions judge applicants by cash flows and intangible attributes: reputation, honesty, attitudes, and habits.

Microfinance has thus broadened the range of criteria for creditworthiness and included the excluded. Furthermore, the most important innovation of microfinance has been the use of the client relationship (that is, the present value of the expected stream of future services) as an incentive to repay. A microfinance contract implies a direct, mutually valuable long-term relationship that creates rights and responsibilities for both parties and generates the structure of incentives that determines their behavior. The borrower repays in the expectation of improved future service, while the lender must credibly promise to be there when the borrower returns (that is, to be sustainable).

This same separating principle must be used by the prudential regulator, when enacting norms for different financial technologies. If a microfinance portfolio represents a different risk profile, it should not be regulated as if it implied the same degree and determinants of riskiness as other portfolios. A pooling regulation would not be optimum. Microfinance deserves prudential norms different from those suitable for commercial banking and consumer finance. The prudential regulators in countries like Bolivia and Peru understood this principle and created a regulatory environment conducive to the success of microfinance. Moreover, as the Basel II framework allowed financial intermediaries to define their own risk management approaches, this opened spaces for innovation that favored microfinance. The potential threat from Basel III is, instead, a restrictive perspective on financial technologies that might not recognize the idiosyncrasies of microfinance.

Moreover, digital technologies are transforming finance, increasing the number and variety of new entrants, and challenging its regulation at unprecedented rates. While, as in the case of microfinance, regulation should not unnecessarily constrain innovation, it is importantthat the prudential regulator understands the unique features of microfinance as a special tool for financial inclusion.