

SME Digital Innovation Programme

On 3rd July 2017 the State Department for Entrepreneurs and Small & Enterprises (SEPyME) published its 260-E/2017 Resolution creating the SME Digital Innovation Programme.

SME Digital Innovation Programme

This programme targets the Micro, Small and Medium-sized Enterprises (MSMEs) filed on the MiPyME Companies Register to help promote their technological development.

In order to speed up digitisation and digital infrastructure processes, the programme, backed by the Argentine government, makes it easier for MSMEs to access technological products and services with the aid of price discounts and financing tools, in order to encourage competitiveness. The programme makes technology resources available, offering financing facilities and with prices substantially below market rates.

Procedure

Supplier companies interested in taking part in the programme –whether they are manufacturers, importers or distributors of the products and services in question -, should sign up to the relevant Industry agreement with the State Department for Entrepreneurs and Small & Enterprises (SEPyME), and then offer the technology products and services included in the programme framework through a website. This Industry agreement comprises Appendix II of the Resolution and sets the necessary parameters for implementing the programme.

Those MSMEs wishing to benefit from the plan should open a session on the Portal, select the product or service they need and download the relevant coupon. The supplier will check that it is valid and then proceed with the sale process.

Regulation about Financial Conglomerates

The House of Representatives has approved the bill to create the legal framework for regulating and supervising financial holdings on its fourth reading.

Because of the differences between the text passed in the Senate and that passed in the Chamber, the bill will be reviewed by an arbitration committee to define the definitive text, which will be submitted for presidential sanction.

The fourth version, which consolidates the three earlier versions passed of this bill, includes the following areas:

Financial conglomerates

The bill defines a financial conglomerate as a group of institutions with a shared controlling body that includes two or more domestic or foreign institutions carrying out an activity among those regulated by the Colombian Financial Authority, the SFC, provided that at least one of these carries out these activities in Colombia.

The bill also makes it clear that, with regard to financial conglomerates, for the purposes of this regulation only those subsidiaries that are financial institutions will form part of the conglomerate.

Financial holding

It defines “financial holding” as any legal person or investment vehicle exercising primary control over the institutions making up the financial conglomerate, defining primary control as that exercised by the legal person or investment vehicle closest to those institutions which are engaged in an activity overseen by the SFC and which has shared control over all the institutions of this nature that make up the conglomerate.

The three types of scenario in which control and subordination will be deemed to be present are:

1. When there is a shareholding majority,
2. When there is a decision-making majority in the company’s board of directors, and
3. When there is an overriding influence over the decisions made in the company resulting from a shareholder pact.

The regulation lays down that financial holdings, including those set up abroad will be subject to inspection and oversight from the SFC, unless they demonstrate to the SFC that in their home jurisdiction they are subject to a regulation and supervisory regime similar to that of Colombia.

However, it also makes clear that holdings will not be required to make contributions to the SFC’s running and investment expenses.

Supervisory powers

The bill will give the SFC the power to decide:

1. The capital adequacy required of conglomerates
2. Corporate governance standards
3. Financial risk and internal control management framework
4. Exemptions of legal persons or investment vehicles from supervision, depending on the scope of that supervision

5. Criteria for defining the nature of related-party links to the conglomerate and the holding
6. Criteria for identifying, managing, monitoring and disclosing conflicts of interest
7. Changes required in the structure of the conglomerate (when the existing structure does not enable information to be disclosed appropriately, comprehensive and consolidated supervision and/or identification of the real beneficiary of the institutions comprising it)
8. Information requirements and visits that are to be made to the entities forming part of the conglomerate
9. To revoke the regulated entity's operating licence when the information supplied by the foreign parent company is insufficient to carry out supervision.

It also establishes instruments for capital adequacy intervention, only in the case of those financial institutions, insurance companies and securities market firms that form part of the financial conglomerate, and not applicable to other institutions forming part of this conglomerate with different activities.

In this ambit of the SFC's supervision, the draft law clarifies that the instruments for intervention will only be directly applicable to the financial holding and to those institutions whose business activities entail being regulated by this Authority. For these purposes, the SFC will identify the institution that is to act as a holding in each financial conglomerate, although they may not set up sub-conglomerates for supervisory purposes inside a financial conglomerate.

Furthermore, the SFC may instruct holdings how to comply with regulation, particularly in the areas of risk management, internal control, information disclosure and corporate governance of the financial conglomerate.

National government

Lastly, the Bill stipulates that the national government will have six (6) months, from when the bill comes into law, to regulate the powers of oversight over conglomerates.

Annual Agricultural Risk Management Programme

The National Agricultural Credit Committee (CNCA in the Spanish acronym) has approved the 2017 Annual Risk Management Programme, with a budget of five billion pesos (COP 5,000,000,000) – about USD 1,723,100-, as contained in Resolution No. 3/2017.

These resources, which will be charged to the National Agricultural Risk Fund, administered by the Agricultural Sector Financing (FINAGRO), will be used to subsidise agricultural insurance premiums (which will account for around 81% of these funds), and so that FINAGRO can develop the promotion programme for agricultural risk management (taking up the remaining 19%).

Agricultural insurance, set up in 1993, is focused on protecting and creating incentives for food production in Colombia and on improving the rural economy, striving to promote the economic organisation of the agricultural sector and protecting agricultural investments.

Thus, agricultural insurance, the premiums for which will be subsidised using the funds earmarked by the CNCA, will be

available throughout the country, giving cover to those producers who insure the entire production area of a single crop in one plot, when this is included in the Agricultural Risk Management Plan.

Subsidies for the farming insurance policy cover, in principle, up to 60% of the net premium, but can rise to as much as 80% for small producers and 70% for medium and large producers when i) the crop or insured activity is part of the *Colombia Siembra* ["Colombia Sows"] programme; ii) when the crop or activity has been financed by farming loans granted with rediscounting funds or under FINAGRO-intermediary equivalent conditions, and iii) when the insured producer makes products that are subject to export quotas, tax relief or tariff reduction by third-party countries and in Colombia's favour, according to treaties currently in force.

Farming crops, pastures, forest plantations and stockbreeding, fish farming and aquaculture can all be insured using this subsidy.

This agricultural insurance provides cover for damage caused by natural and biological risks affecting the agricultural activities specified.

Information about Economic Groups

The Securities Market Authority (SMV) has used this resolution to add a simplified formula for presenting information about economic groups. Nevertheless, due to the issues arising from the application of this system, the SMV has felt it necessary to make provisions for other practical situations in which regulated entities report information about their economic group, and has amended articles 8 and 9 of the Regulations on Indirect Property, Related Party Links & Economic Groups that cover this resolution.

The Authority stipulates that, as well as the securities issuers filed in its Public Register of the Securities Market, legal persons registered there and fund management companies with securities filed on any of the markets listed in Section I of Appendix 15 of the Regulations on Indirect Property, Related Party Links & Economic Groups or on the Stock Exchange are included as regulated entities when they present information about their economic group under the simplified system, and as such must submit:

- Details about the legal persons in their economic group wielding control, directly or indirectly, in a straight line of ownership;
- Details about the legal persons in their economic group that have an HQ or representation in the country; and
- Details about the foreign legal persons in their economic group that have a material commercial and/or financial relationship with the issuer, the legal person registered on the Fund Management Companies Register, according to the definition of “material” laid down in the internationally current International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Thus, regulated entities must provide a link to the website of their foreign regulators, in order to provide access to public information on their economic groups. When an economic group belongs to the Peruvian state or to another country whose securities market regulator is a member of the International Organisation of Securities Commissions (IOSCO), it will only have to submit the information listed above, as needed.

When amendments to the information registered about the economic group have to be reported, the resolution sets a deadline of 31st March of the year after the changes have taken place, unless the amendment is classified as an important fact or major event. In these circumstances, as well as making the respective notification, the information must be updated within fifteen (15) calendar days.

Regulation to manage conduct within the financial system

The Banking, Insurance & Private Pension Fund Managers' Authority passed Resolution 3274-2017 on 21st August 2017, approving regulations to manage conduct within the financial market system and making changes to the accounting manual used by companies in the financial system, as well as the regulations applying to credit and debit cards.

The Regulations to Manage Conduct within the Financial Market System make it mandatory for companies offering financial products and services to have due regard for consumer rights,

and for approved market conduct policies and procedures. This is discussed by the Head of the Authority, Socorro Heysen Zegarra, in our [interview](#) with her published in this issue of *Progreso*.

The regulations cover the marketing mechanisms that companies must use in order to prevent consumers being misled about their financial products and services, as well as the type of information they must supply in order for the consumer to have a full understanding of the product, its advantages, risks and conditions that apply, so that they can take informed purchasing decisions. Specifically, the regulations require companies to have:

- Policies that embed ethical market conduct into companies' organisation, culture and corporate governance structures.
- Generic procedures for designing, validating, selling and monitoring products and services that are consistent with market conduct principles.
- Manual to manage market conduct, containing the targets, mechanisms and procedures to be used to meet the targets and responsibilities in the areas involved in implementing user procedures, the job description of the market conduct officer, as well as the channels of communication and coordination between them.
- Corporate codes of good practice in dealing with users that include market conduct principles.
- Annual training programme for front-line staff.

The Regulations provide for the creation of a conduct officer, to be appointed by the Board of Directors, who should be trained in matters concerning consumer protection and market conduct, and also understands their company's products and services, someone who has experience in control, monitoring and process management.

This position's responsibilities are to include: (i) proposing

company strategies and measures for managing appropriate market conduct; ii) assessing and verifying that policies and procedures are applied to guarantee appropriate market conduct in the company, and that these are reflected in how the entire organisation behaves; iii) participating in validating the design of the sales strategy; iv) verifying the after-sales procedures of products and services provided.

In order to improve the quality of information given to users, the regulations make it mandatory for credit card issuers to publish information comparing them, their features and tariffs, so that consumers access the cards that best match their interests and their profiles.

The regulations apply to banks, financial institutions, microfinance entities, firms providing financial leasing and factoring, real estate developers, providers of sureties and trust services, the central bank (Banco de la Nación) and Banco Agropecuario. These institutions are all required, in no more than sixty (60) days after the publication of the Resolution, to submit to the Authority their plans for the changes they will push through in their entities to comply with the provisions in the regulations.

Finally, the Resolution approves the modification to article 11 of the Credit and Debit Card regulation, which makes it obligatory for firms to send credit card title owners an online or paper monthly statement (when required to do so by the customer) no less than five (5) working days before the payment due date.

New classification of MSMEs

The Dominican Republic's Chamber of Deputies has passed modifications to three articles of [Act 488-08](#), 19th December 2008, establishing a Regulatory Framework for the Development and Competitiveness of Micro, Small and Medium-sized Enterprises (MSMEs).

The Act reclassifies MSMEs so that policies, programmes and public initiatives to promote, support and regulate MSMEs are better fitted to their needs, their reality and the specifics of the sector in which they operate, as provided for in the new **article 2-bis**.

Classification of MSMEs

The amendments to **articles 1 and 2** of Act 488-08 alter the thresholds for employee numbers and the annual gross sales* figure, removing the reference to the asset volume previously stipulated in Act 488-08. The new classification of MSMEs is as follows:

- Microenterprise:
 - Up to 10 employees (15 in the modified Act)
 - Annual gross sales of up to RD 8mn (6mn in the modified Act)
- Small enterprise:
 - Between 11 and 50 employees (16 to 60 in the modified Act)
 - Annual gross sales of up to RD 54mn (6mn – 40mn in the modified Act)
- Medium-sized enterprise:
 - Between 51 and 150 employees (61 to 200 in the modified

Act)

- Annual gross sales of up to RD 202mn (40mn – 150mn in the modified Act)

Business Registry

Article 22 has also been amended to create the MSME Business Registry, which will be kept up by the Ministry for Industry, Trade & MSMEs, free of charge and voluntary for companies, which will certify the classification by size of companies. Certificates issued will be valid for one year.

*NOTE: Figure annually index-linked to the Consumer Price Index.

Anti-money laundering and the financing of terrorism

On 16th June 2017, the [Financial Information Unit](#) (UIF in the Spanish acronym) passed Resolution 30-E/2017 revoking [Resolution 121/2011](#) on anti-money laundering and the financing of terrorism (AML/FT).

Purpose

Resolution 30-E/2017 remains faithful to the spirit of the resolution it is replacing: anti money-laundering and the financing of terrorism (AML/FT), but it updates the criteria for managing AML/FT risk and the minimum requirements that regulated entities must meet when managing procedures and controls.

Regulated entities

The Resolution's amendments do not affect the classification of regulation entities. This is covered in Art. 20 of [Law 25.246](#).

AML/FT systems

The text makes it mandatory for institutions to implement an AML/FT system that has been prepared by the Compliance Officer and approved by its board of directors.

Institutions must draw up a technical document laying out their methodology for internally identifying and assessing risk, to be submitted to the UIF by 30th April every year. This self-assessment will evaluate a number of AML/FT risk factors, such as customers, products and/or services, distribution channels and geographical area.

As well as identifying and assessing their risks, institutions must set up mechanisms to mitigate them and form an AML/FT committee to support the Compliance Officer.

The regulation requires there to be an annual training plan to instruct staff about all norms and procedures for the AML/FT system. It also provides for the approval of a Code of Conduct, designed to ensure that the system is working properly, the writing of an AML/FT Manual and the review of the system in place at two levels: both external and internal.

The board of directors or the institution's highest authority, if different, will be responsible for this prevention system.

Policy of identifying and knowing your customer (KYC)

In chapter III of the Resolution, institutions are required to have policies and procedures that enable them to know their customers, verify the information supplied by them and monitor their transactions. These stages, known as standards of due diligence, must be carried out according to the risk profile assigned to each client. In other words, the procedures are

followed depending on AML/FT risk classifications, which have three levels: high, medium and low. Each of these levels has different degrees of due diligence measures that have to be kept updated at all times, at least every 5 years for low-risk customers, and every 1 or 2 years, for high-risk and medium-risk customers, respectively.

Transaction monitoring and reporting regime

One of the changes introduced since the 2011 Resolution is that of carrying out transaction monitoring. This requires institutions to create a prospective transaction profile for each customer, based on the institution's own risk analysis, which allows it to detect unusual and suspicious transactions.

Another important new feature is a reporting regime under which institutions are obliged to make three types of online reports systematically: on high figure* cash transactions, international transactions and a systematic annual report on their own institution.

Furthermore, the regulation requires suspicious** transactions to be reported to the UIF, provided that there are reasonable grounds for classifying them as such, as well as mandating that specific criteria should be borne in mind in the case of electronic transfers and cash deposits.

Finally, provisions are made for sanctions in the case of non-compliance with the requirements of the resolution, specified in article 23 of [Act 25.246](#), with financial penalties commensurate with the value of the goods involved in the crime.

* Transactions completed in local or foreign currency involving the transfer of cash sums of TWO HUNDRED THOUSAND PESOS (ARS 200,000) or more.

**** Attempted or completed transactions that may give rise to AML/FT suspicions or, having previously been identified as unusual, whose anomalies cannot be accounted for in a subsequent analysis and assessment.**

Personal data transfer to third-party countries

In order to create specific regulations over the transfer to third countries of personal data stored by the Colombian legislation, the Industry & Trade Authority (SIC in the Spanish acronym) has published a regulatory bill seeking to regulate this issue in its Single Circular.

Suitable levels of protection

To this end, this project includes provisions on standards for a suitable level of protection for personal information in the reception country. These standards require the following to exist:

1. Standards on personal data processing,
2. Administrative and judicial means and ways to ensure the protection of the rights of information holders, and
3. A public authority in charge of supervising personal data processing, among other matters.

The regulation also lists 26 countries that currently comply with these standards, in addition to those countries which in the view of the European Commission have suitable levels of protection.

Lastly, it sets out the procedure that should be put in place

so that the head of data processing can apply to the SIC for a permit for the international transfer of personal data.

Agricultural sector and rural development

The General Agricultural Sector and Rural Development Bill received a reading in the Senate in June 2017, in order to work towards compliance [with Law 1-12 setting out the National Development Strategy to 2030](#), which requires new legislation to regulate the Dominican agricultural sector.

The Bill sets out the structure, organisation, scope, powers and operations of the bodies and institutions working in the agricultural sector, as well as defining the activities of the different stakeholders in the sector, and the roles and the reach of its institutions.

Agricultural sector

The agricultural sector is defined as covering cereal farming, livestock breeding, beekeeping, poultry-rearing, rabbit production, hunting, salt and freshwater fisheries, as well as agribusiness, agro-industrial and agricultural export services.

The Bill has identified the following priorities and measures necessary to tackle them:

- Increasing productivity and food product quality,
- Raising technical levels and generally modernise the food production system,
- Promoting cooperation between institutions,
- Developing infrastructures and modernise irrigation systems,
- Extending short- and medium-term funding,
- Existence of a State guarantee for the insurance on agricultural production investment, as a transversal instrument across the whole gamut of production,
- Incorporating unexploited farming areas into production,
- Incentives for all production stages,
- Redefining supporting institutions.

National Agricultural Board and Ministry of Agriculture

This piece of legislation provides for the creation of several public institutions to articulate the strategic priorities listed above:

- **Ministry of Agriculture**, to be the central structure in the agricultural sector, to which all other sector departments, divisions, sections and units will report. Articles 12 to 34 of the regulation define the ministerial departments that will be controlled by the Ministry of Agriculture, their heads and their functions; articles 35 to 189 describe the sector's 26 farming institutions, which will also report to this Ministry.
- **National Farming Board**, the main body for debate, approval, coordination and issuance of agricultural sector policy, comprising a number of civil servants and chaired by the President of the Republic.

The bodies above will have the powers to carry through plans,

programmes and projects focusing on developing the agricultural sector to overcome rural poverty.

Role of the State in rural development

The Bill gives the state primary responsibility for guaranteeing food security, and as such it must make the necessary progress in technology and set aside enough resources to cover the procedures in production, processing, marketing and consumption required to stimulate all areas of the agricultural sector and encourage efficiency, progress and rural development.

To this end, it is creating the **System to support agricultural, agroindustry and rural modernisation**. This will focus on innovation in technology, qualification of human resources and creating the best conditions for producers. The system will be in charge of coordinating the Ministry of Agriculture's activity and that of the other institutions in the agricultural sector, and will concentrate on raising agricultural and rural Gross Domestic Product (GDP) and on rural welfare.

The State must guarantee various services, including research, technical aid, education and training, organisation, technology upskilling, mechanisation, sowing materials, chemical and natural inputs, financing, marketing, risk compensation, guaranteed free professional training, land conservation, land ownership deeds, industrialisation and poverty reduction.

The new regulation also provides for the option of awarding state grants for special policies that support modern, high-quality and profitable farming at competitive prices for the consumer that help to open up international markets.

The regulation stresses the importance of professional resources and technology in supporting areas of the agricultural sector, and creates the **Dominican College of**

Agricultural Professionals (CODOPA in the Spanish acronym); with legal personality under public, non-state law, whose operations will be defined in a specific law. The College will operate on national territory, representing professionals of all specialisations in the agricultural sector, and take part in their training and upskilling. It may also participate in research conducted in the state agricultural sector.

The Bill is awaiting a hearing in the current legislature, which opened in August.

Voluntary code of corporate governance

A few months after the national financial system supervisory board, Conassif, published its [Corporate Governance regulations](#) containing the international principles and standards that regulated entities should incorporate into their strategies, Costa Rica's Corporate Governance Institute (IGC in the Spanish acronym), has taken the next step in the country's drive to promote best corporate governance practices throughout business with the publication of this code.

The Voluntary Code uses the [OECD's Corporate Governance principles](#) as its template, taking these to formulate specific good practice recommendations. It gives organisations greater flexibility to achieve compliance, so that each institution can adopt its own policies and practices, even if these are not covered in the code, to fulfil the same purpose.

The new edition contains the following general principles:

Shareholder rights

- **Equitable treatment.** – Guarantee fair treatment for shareholders in the same category, and particularly minority shareholders.
- **Participation in meetings.** – Ensure that shareholders can take part and vote in General Meetings, and have appropriate information channels for accessing the information they need to cast informed votes on the agenda motions (at least 15 calendar days before meetings).
- **Access to information.** – Guarantee their right to receive and ask for timely, clear and accurate information, including mechanisms that enable them to express their opinion about the institution's activities.
- **Ownership.** – Define procedures for filing share ownership securely and reliably and keeping these updated.
- **Information transparency.** – Provide shareholders with sufficient information, which must be accurate, timely and given to all. Ensure there is an investor relations policy in place.

Board of Directors and its members' responsibilities

- **Composition.** – The Board of Directors should be sufficiently numerous to enable directors to perform effectively and fully participate in meetings. Members of the Board will be appointed for a maximum term of three years, and at least two should be independent.
- **Integrity.** – Directors should fulfil the requirements of probity, integrity, ethics, diligence and availability needed to perform their duties with an independent criterion, acting always in the interest of the institution and of its shareholders.

- **Duties and rights.** – New directors should be given an induction course so that they can learn about the business, their powers and responsibilities.
- **Structure, operations and functions.** – The institution must have procedures, work plans and regulations covering the Board of Directors, so that it can perform its duties properly. Committees can be constituted (at the very least, the Audit committee and the Remuneration & Compensation Committees will be mandatory) to support the Board in fulfilling its responsibilities. Every committee should have its own set of regulations, governing its composition and operations.
- **Management.** – There should be a clear separation of powers between the board of directors and management. Management must implement the institution's internal control mechanisms, within the framework of the guidelines approved by the board, and report regularly to the board about the institution's financial and operating performance. Its performance will be assessed every year by the board.
- **Related parties.** – Policies and procedures must be put together to evaluate, approve and disclose certain transactions between the institution and related parties.

Family companies

The Code dedicates an entire chapter to good practice recommendations for family firms. Specifically, they should have a defining framework (family protocol) for the relationship between the family and the company, set out in a formal document that states the family vision, values and principles.

It also recommends that governance bodies (Family Council and Family Meeting) be created, enabling the family and the company to communicate.

Other issues

The document contains a number of appendices with simple policies that can be adopted voluntarily. These include attachments on investor relations, buying and selling directors' and senior management's shares, what constitutes important information, audit committees and compensation & remuneration committees.

The audit committee, in particular, must comprise a majority of independent directors and the Chair of the board of directors may not sit on it.

Adopting the code

Institutions' boards of directors will have to adopt a resolution to uphold this voluntary code, and inform the General Meeting of the resolution. Adopting it will mean that the institution will have to write its own corporate governance code, taking as a reference the principles and practices recommended in this code.

Once adopted, if the institution decides not to apply the code, it must inform the General Meeting, indicating the reasons for this decision.

Annual Compliance Report

Every year, the institution must publish an Annual Compliance report, to consist of a review of compliance with the principles and practices in the voluntary code. The Report (Appendix 6 of the Code) must be made available to shareholders and other stakeholders, and should be signed off by the Board of Directors.

In the event of non-compliance with any of the principles in the code, the institution must explain the reasons it did not comply and the actions it intends to take to achieve compliance.

Audit Committees for entities of public interest

Spain issues guidelines so that the Auditing Act 22/2015, passed into law on 21st July 2015 can be applied to Entities of Public Interest. They define these as (i) issuers of securities trading on official secondary securities markets, credit institutions and insurance companies subject to supervision and control from the Bank of Spain, the National Securities Exchange Commission and the General Insurance & Pension Funds Directorate, as well as autonomous regional bodies with powers to organise and supervise insurance institutions, respectively, together with issuers of securities trading on the alternative stock exchange market belonging to the growth companies segment, (ii) entities whose regulation is decided on the basis of their significant public relevance because of the nature of their business, their size or their number of employees; and (iii) groups of companies in which the parent company falls into one of these categories mentioned above.

The technical guidelines set out standardised explanations and operating principles for the country's most important Audit Committees, laying down:

Key principles

- **Responsibility:** the audit committee is responsible for advising the Board of Directors and for supervising and monitoring the process of preparing and presenting financial information; for the independence of the external auditors, and efficiency of the internal control and risk management systems.
- **Scepticism:** members of the audit committee should be sceptical, questioning the assessment procedures and conclusions reached by the institution's executives and management, retaining a critical viewpoint and formulating their own position.
- **Constructive dialogue encouraging members to express themselves freely:** the audit committee should encourage constructive dialogue among its members, promoting free expression and a critical attitude; the Chair of the committee should verify that all members are participating freely in deliberations without being subjected to pressure internally or from third parties.
- **Continuous dialogue with internal audit, the external auditors and senior management:** the audit committee should ensure that communication is effective and regular with its most common interlocutors, especially with: (i) the company's senior management, particularly with the CEO and CFO; (ii) the head of internal auditing; (iii) the lead auditor in charge of the financial auditing; without this representing a threat to the independent operation of the committee.
- **Sufficient capacity for analysis:** the audit committee must have the authority to request and obtain expert advice, legal opinions and reports, when they deem this to be necessary.

How audit committees perform their duties

▪ **Composition**

The Guidelines acknowledge that diversity of gender, professional experience, skills and sectoral knowledge

encourage healthy scepticism and a critical attitude. Depending on the complexity, size and activity sector of the institution, ideally at least one of the committee members will have IT experience to make it easier to supervise the internal risk control and management systems, which tend to use complex IT applications.

The criteria for appointments to the audit committee, as well as the requirements members should fulfil, must be specified in the board of directors' or the audit committee's regulations.

Members of the audit committee who are also members of the board of directors, which entails having management, economics, financial and business skills, must also have some knowledge of accounting and auditing, as well as internal control, risk management and business management. Likewise, the committee must have a regular training programme that ensures its members' knowledge is kept up to date.

In order to ensure that new members of the audit committee have a similar basic level of knowledge about the firm, the guidelines recommend induction programmes, which should address the following areas: (i) the role of the audit committee, its responsibilities and aims; (ii) how the specialist committees set up by the entity operate; (iii) the time dedication expected of each committee member; (iv) 360° vision of the institution's business and organisational model and of its strategy; (v) the institution's information requirements.

- **Operations**

The Guidelines recommend that the committee should have regulations governing how it operates, approved by the Board of Directors and posted on the company website to make them available to shareholders, investors, regulators and other stakeholders.

The guidelines sketches the contents of the annual business plan, which should cover the following activities:

- **Establish specific goals for each of the audit committee's functions.**
- Set an annual calendar of meetings.
- Organise information and meeting agendas in a systematic fashion.
- Supplement the audit committee's formal meetings with sessions or working groups scheduled to prepare particular issues.
- Plan meetings and other vehicles for regular communication with the institution's managers, the internal auditor and external auditors.
- Anticipate the need to use external experts to provide advice in some tasks.
- Plan such training as may be advisable to carry out certain functions correctly.

Because of the importance, complexity and volume of the functions, the Guidelines recommend that the committee holds at least four meetings a year, in which as well as the participation of all members of the committee, it recommends the attendance of certain others (executive directors, managers, employees, etc) solely to deal with certain points on the agenda and at the Chair of the committee's invitation. The Chair of the audit committee will act as the spokesperson at board meetings and, if required, at the institution's general meeting.

The paper makes the institution's management responsible for the audit committee having access to appropriate, timely and sufficient information so that it can do its job properly.

The committee must have a secretary and the help it needs to plan meetings and agendas, write documents and minute meetings, collate and distribute information, among other tasks. The committee must have enough financial resources to

bring in external advice on specific issues.

The Guidelines acknowledge that it is reasonable for committee members, and particularly the Chair, to receive sufficient remuneration commensurate with their responsibility and workload, and that the Chair's remuneration may be different from that of the other members.

- **Oversight of financial and non-financial information**

The Guidelines make clear that it is up to the company management to design and manage the internal control system, while it is the audit committee's responsibility to supervise it, including the reception of reports from the heads of internal control and internal audit and formulation of conclusions about the extent to which the system is secure and reliable, and to make proposals for improvements.

The institution's management is also responsible for preparing the financial statements and management reports, which should supply comprehensive, clear, relevant and reliable information that satisfies the applicable standards and other regulations. The audit committee should bear in mind the different sources of information available, when assessing whether the entity has applied accounting policies correctly, using their own judgement to reach an independent conclusion, having reviewed the clarity and integrity of all related financial and non-financial information.

So that the audit committee can operate appropriately, it needs to know about and understand the senior managers' decisions about how to apply the most significant criteria and the results of the reviews conducted by internal audit, as well as to maintain fluid lines of communication with the external auditors to hear their opinion of the financial information. The committee should also check that the information posted on the entity's website is kept up to date and coincides with the information formulated by the company

directors. As such, in the event of discrepancies with the information posted on the website, the committee must report its opinion to the Board of Directors.

The Guidelines recommend that audit committees supervise how the “whistleblower channel” operates. To such end, it must receive regular information about the channel, including the number of complaints received, their source, nature, results of the investigations and proposals for action, so that the audit committee can propose the actions required to improve how it works and reduce the risk of irregularities in the future.

- **Oversight of risk management and control**

On the matter of risk oversight, the paper makes provisions for the audit committee to take charge of the internal control and risk management systems *in toto*, encompassing both financial and non-financial risks.

The Audit committee must regularly assess the need to have an independent area for risk control and management. In the event of the institution deciding not to have its own in-house department, the audit committee should ensure that the entity has implemented alternative processes so that senior management, the audit committee itself and the Board of Directors know whether the risk control and management system has worked as stipulated in the policy approved by the Board, for which the committee must receive regular reports from management on how the systems set up work and the conclusions reached on this. Similarly, if the entity has a specialist risk committee, the functions of the audit committee must be coordinated with those of the committee specialising in risk management and control.

- **Internal Audit oversight**

The Guidelines establish that the audit committee, in those institutions that do not have an internal audit department,

should determine whether one is necessary. If this department is not created on the back of this assessment, the committee must ensure that the institution has put alternative processes in place that provide sufficient assurance that the internal control function is working.

For those institutions that already have an internal audit department, the committee should assess and approve its functions, action plans and resources every year, ensuring that they are appropriate for the institution's needs and, if required, propose the appointment, re-election or severance of the person in charge of the area. This committee will also verify that the profiles of internal audit members are suitable and that they can perform their role objectively and independently. The requirements laid down in the Institute of Internal Auditors' professional practices standards for internal auditing and the recommendations in the Codes of Good governance for listed companies can be used as a benchmark.

When overseeing the annual internal auditing plan, the committee must check that:

- The core business risk areas identified in the plan are covered.
- There is appropriate coordination with other assurance functions, such as those over risk management and control, or regulatory compliance, as well as with the external auditors.
- Resources are available, approved at the outset, including the hiring or use of experts.
- The head of internal auditing is granted access to the internal auditing committee.
- Significant changes in the plan are reported to the audit committee.
- The conclusions reached by internal auditing are appropriate, the action plans are being executed as agreed and within the scheduled timeline, and regular progress reports provided to the audit committee.

- Discrepancies that may have arisen among the institution's senior management have been resolved or submitted for consideration by the audit committee itself.
- The conclusions of their reports are presented according to schedule, prepared in line with an annual plan or in response to specific requests that the committee may have made itself or approved.
- An activity report is presented every year that must contain, at least, a summary of actions and reports completed over the year, explaining why any tasks that were scheduled in the annual plan have not been completed, and also why any that were not planned in the calendar were carried out; this should include an inventory of areas of weakness, recommendations and action plans contained in the various reports.

▪ Relationship with the financial auditor

As mandated by law, the audit committee is responsible for the selection procedure of the external auditor. It must take taking into account factors such as the scope of the audit, the training, experience, resources of the auditor or the auditing company, fees, independence and effectiveness, as well as the quality of the auditing services tendered. For this reason, the Guidelines recommend that the audit committee defines a selection procedure which sets out the criteria or parameters for evaluating a reasonable number of auditors and auditing firms that are invited by the audit committee itself to tender for the business.

The paper establishes that the choice of auditor will be the result of an appropriate weighing up of the different criteria, without attaching greater importance to quantitative criteria such as the fees quoted or the auditor's capacity to offer additional services other than the audit.

The audit committee should also ask the auditor to confirm or make a declaration of independence, so that it can then issue a report on this, prior to the publication of the external auditor's report.

The Guidelines recommend that communication between the audit committee and the external auditor be fluid and continuous, although communication between the audit committee and the external auditor should not infringe the auditor's independence nor the efficiency with which they conduct the audit or pursue auditing procedures.

When the audit is complete, the audit committee must review with the external auditor the significant findings of their work, as well as the content of the auditor's report and of the additional report for the audit committee.

The committee must carry out a final assessment of the auditor's performance and how it has contributed to the quality of the audit and the integrity of the financial information. In the event of there being areas for concern or that are unresolved about the quality of the audit, the committee must consider the option of informing the Board of Directors; if this course of action is appropriate, it must leave a timely written record of this to the supervisory bodies.

▪ **Assessment and follow-up**

The paper recommends that the audit committee should independently assess the performance of the Board as part of its annual assessment, to reinforce its functionality and improve planning. For this reason, in order to achieve greater transparency, the extent to which the assessment has given rise to significant changes in the entity's internal organisation and procedures should be made public.

The Guidelines indicate that publishing the audit committee's report on its operation enables shareholders and other

stakeholders to understand the activities of the committee throughout the year. The report should thus contain:

- Regulations governing the audit committee
- Composition of the audit committee over the year, including the category and time served of each member
- Functions and tasks performed in practice throughout the year by the audit committee, as well as the changes made and referral to the rules by which it is regulated
- Meetings held and number of attendees, specifying whether third-party, non-committee members have been invited.
- Number of meetings held with the internal and external auditors
- Significant activities carried out over the period with regard to: (i) financial and non-financial reporting and the related internal control mechanisms; (ii) transactions with related parties; (iii) corporate social responsibility policy and how it has been implemented during the year; (iv) risk management and control; (v) internal audit; (vi) external audit; (vii) follow-up of the committee's own action plans; (viii) nature and scope of communications.
- Evaluation of how the audit committee has worked and its performance, as well as the methods used to assess its efficiency
- Information about the audit committee's opinion as to the external auditor's level of independence.
- Information about which practical guidelines on audit committees are being followed, if applicable, and to what extent
- Conclusions
- Date on which the audit committee prepared the report and the date it was approved by the Board of Directors.

Financial Inclusion Coordinating Council

On 27th July, the Argentinian government passed Resolution 121-E/2017 creating the Financial Inclusion Coordinating Council (Council), which will be part of the Finance Ministry. Argentina joins the list of countries such as Chile, Uruguay, Colombia, Peru and Mexico that are all committed to significantly increasing financial inclusion.

Purpose

The Council, whose composition and operations will be duly regulated, must design and implement a financial inclusion strategy in the country and develop policies to achieve universal access to financial and banking services. These policies may be short, medium or long-term and will facilitate effective universal access to these services.

The roles of the Council

The Council's roles include: i) articulating participative processes among the various public and private players, ii) proposing plans to drive credit, microcredit and financial literacy, and iii) designing regulations that make it easier to implement the plans and programmes approved, ensuring that consumers' rights are protected.

In addition, the Council will have to advise the Argentinian government on financial inclusion issues, and design databases

on access to, use and quality of financial services in order to assess the progress made by the government's programmes and plans. All this will help to promote a more efficient and transparent financial system that makes the most of leading-edge technology.

8th National Financial Inclusion Report

On 19th June 2017, the National Banking & Securities Commission published its 8th National Financial Inclusion Report (RNIF8). A three-yearly report on the conclusions of the National Financial Inclusion Survey (ENIF) in the second quarter of 2016, on access to and use of different financial services and products.

Gender bias

This is the principal new feature of the RNIF 8. This view stresses the importance of developing mechanisms to make it easier to include women in the financial system, given that they account for more than half the population in Mexico. The report shows a clear gender gap –which narrows as the schooling level rises – in the four dimensions of financial inclusion: access, usage, financial literacy and user protection.

Financial infrastructure

Financial infrastructure (branch offices, agents, ATMs and point-of-sale terminals (dataphones) has increased by 17.8% although it is clear from the report that it still needs to expand. Worth highlighting is the increased use of automatic teller machines, which are one of the most popular access channels, which has had a knock-on effect on the number of Mexicans visiting branch offices, well down from the previous report.

Loans and saving

The number of loans in the loan book has slipped a little. Even so, more than half the adult population has formal or informal credit.

The proportion of MSMEs with loans has grown by 33% in the last 6 years and the amounts borrowed have increased by 130%, while the interest rate is lower. However, even though over 95% of enterprises fall into this category, less than 10% of MSMEs have loans and the figures lent out account for only 25% of all corporate lending.

Another feature that should be highlighted is the recent phenomenon of crowdfunding. In one year, the number of initiatives in this area shot up by 42%, the number of enterprises using this type of financing rose by 38% and the number of people funding these initiatives increased by 41%.

The number of savings contracts grew by 14% in a year. This is 8 percentage points higher than the first results from ENIF. In other words, there is timid progress, but 17.9 million adults still neither have an account in a financial institution nor use formal savings mechanisms.

Transactions and insurance

The number of ATM transactions has increased at an annual rate of 5%, with 98% of these using debit cards. Transfers have grown at the same average annual rate and the most common are

online, as a consequence of the 150% rise in the number of online-banking users.

In insurance there has been a slight increase in the percentage of adults with some kind of product in this field, up by 3% over 3 years. Micro-insurance, bearing in mind its link to the microlending supply, is most popular in the life insurance category, associated with a commercial loan.

We should remind readers that Mexico has the highest penetration of micro-insurance of the 21 countries in Latin America and the Caribbean: 15% of the country's population has some kind of micro-insurance cover, accounting for 17 million people.

Transposition of European data protection regulations

In April 2016, the European Parliament passed [regulations](#) on personal data protection and the free movement of this data, revoking Directive 95/46/EC (General regulation on data protection).

The regulation, applicable from 25th May 2018, not only represents an update to EU standards, but is also a reinforcement of legal certainty and transparency in recognising *"the right of member states to specify or restrict their rules as they wish in order to remain consistent and so that national provisions are understandable to those to whom they apply"*.

In July, the Council of Ministers published the Personal Data Protection bill. Once passed, it will revoke the current

[Organic Personal Data Protection Law 15/1999, 13th December,](#)
and whatsoever national provisions existing at the same or lower levels that might be contrary to or incompatible with the General data protection regulations. The bill is currently at the public consultation stage.

The following are some of the bill's new features:

Deceased persons

The first section, as well as describing the purpose of the law (adapting Spanish legislation to the General regulation on data protection), also circumscribes its area of application: any processing, wholly or partially automated, of personal data, and the non-automated handling of personal data in a data file or that will be included in one in the future. It also mentions those scenarios where it will not be applicable.

There are now provisions in an area where there had previously been no regulation, that of **deceased persons**. Heirs (or anyone expressly so authorised by the deceased) may ask the person in charge of data processing, the controller, for access to, and rectification or elimination of the data about the deceased, unless the deceased had explicitly forbidden this, or it is prohibited by law. If the deceased is a minor or is legally incapacitated, these powers may be exercised by the Prosecution Service.

Express consent

The Bill sets out in section II that data obtained directly from their owners are understood to be **exact and up to date**.

There is an explicit reference to **consent** being necessary to legitimate processing. This must be in the form of a statement or clear positive action by the affected party, and does not include what has been termed as "tacit consent". The regulation also accepts boxes that have not been pre-selected when a contract is being arranged or negotiated.

Specifically, article 8 states that the age at which a **minor** can give consent is thirteen.

There are also provisions in this section that apply to **particular processes**: contact data and data on individual business owners, data clearly publicised by the data holder, credit rating systems, data for the purposes of video surveillance, advertising opt-out systems, whistle-blower information systems in the private sector, as well as data processing in the arena of public statistics and criminal justice. The common denominator in all these is that a balance of interests or a weighting of legitimate interest should exist as a legal starting point for data processing.

Blocking data

The principle of **transparency** in data processing has been added, so that the controller must provide information that is clear, concise and easily accessible to the data holder; this should have a basic level of content, depending on whether the information has been obtained from the party concerned or not.

This section also covers the right to access, rectify, erase ("be forgotten"), oppose, and set limits to processing, as well as data portability; the requirement to block data in the scenarios covered by the Regulation and when, by default, data should be rectified or erased are both new additions. Data that has been blocked will be available only to the corresponding public body, in order to guarantee appropriate application and oversight of compliance with data protection standards.

Data protection officer

In line with the principle of **accountability**, a new feature of the regulation requires a preliminary assessment by the controller of the risk that personal data processing can pose and for measures to be adopted in consequence. This section of

the law defines accountability measures, regulates the position of controller (head of data processing) and that of the data protection officer, and references the relevant codes of conduct and certification.

Certain organisations covered in article 35 will be obliged to appoint a **data protection officer**. The officer may be a part of the controller's organisation or not, and be a natural or legal person. In any event, they must satisfy the requirements contained in the Regulations and demonstrate visible knowledge of the subject, showing their credentials, including certification.

The controller or person in charge must provide the officer with the material and personnel wherewithal necessary and may not remove them except in the event of dishonesty or serious negligence.

One-stop shop

Section VII deals with the "one-stop shop" model which the Regulation is introducing, under which organisations with subsidiaries in several member states will only have to deal with the data protection authority where they have their main headquarters. The Spanish Data Protection Agency (AEPD in the Spanish acronym) will decide where the competence lies at the beginning of proceedings, establishing whether the institution is domestic or international, sending the claim on to the relevant authority if international.

Updated criteria for defining SMEs

On 15th August 2017, the government department for Entrepreneurs and Small & Medium Enterprises (SEPyME) published Resolution 340-E/2017 updating the criteria defining SMEs, setting out a single, clear definition for both general and the special categories.

Quantitative limits: total annual sales revenues by sector

The first classification under this regulation for whether an enterprise is recognised as a micro, small or medium sized company is a financial threshold that varies depending on the company's activity (agriculture, industry and mining, trade, services, construction).

Total annual sales revenues must not exceed the sums specified in Appendix I of the regulation; total annual sales will be understood as the average over the last three tax years, excluding taxes that may apply, and bearing in mind that up to 50% can be deducted from export sales.

Should the company not have been operating for three years, total annual sales revenues will be calculated by taking the average from the tax year just ended. In the absence of such information, a proportional ratio will be calculated on the basis of accumulated monthly sales to date.

The regulation establishes the following brackets of annual sales for a company to be considered micro, small or medium:

- Micro enterprise:

Agricultural, ARS 3 million; Industry & mining, 10.5 million; Trade, 12.5 million; Services, 3.5 million and Construction, 4.7 million.

- Small enterprise:

Agricultural, 19 million; Industry and Mining, 64 million; Trade, 75 million; Services, 21 million and Construction, 30 million.

- Medium (T1)

Agricultural, 145 million; Industry and Mining, 520 million; Trade, 630 million; Services, 175 million and Construction, 240 million.

- Medium (T2)

Agricultural, 230 million; Industry and Mining, 760 million; Trade, 900 million; Services, 250 million and Construction, 360 million.

Specific provisions for quantitative thresholds:

If its business is conducted in more than one of the sectors listed, the enterprise must be categorised in the business sector with the highest sales as per the brackets above. In addition, it must be borne in mind that if annual sales in any one of the enterprise's activity sectors exceeds the thresholds described above, the enterprise can no longer be considered a micro, small or medium enterprise.

Enterprises registered in the Federal Administration of Public Revenues (AFIP)

A limit of ARS 100 million is applied to those enterprises whose principal activity, as registered in the AFIP, is related to financial intermediation, insurance services and real-estate services.

Included and excluded activities

It also determines which activities should be included or excluded from the scope of the regulation.

Thus, it lists the activities by the sector to which the enterprise belongs. It recognises the agriculture, industry & mining, services, construction and trade sectors, expressly including the following activities: crop farming, stockbreeding, hunting, fishing, mining exploitation, manufacturing industry, information and communications (this with some restrictions), electricity, gas, water supply and waste management, transport and accommodation services, financial intermediation, real estate and professional services, administrative services, teaching and healthcare.

However, it excludes domestic services supplied to private households, the services of extraterritorial organisations and bodies, the Civil Service, Defence and social security from those activities that are subject to the regulation, as well as services relating to gambling and betting.

Controlled and/or related enterprises

Enterprises which, whilst complying with the thresholds in terms of their volumes and sectors of business, nevertheless control, are controlled by and/or have a link with other domestic or foreign companies that do not meet the stated conditions, will not be considered as micro, small or medium sized companies.

The regulation defines a related enterprise as one which has a stake of at least 20% in the capital of another, and a controlled company as one in which another firm owns at least 50%.

Procedure

Enterprises must submit a sworn statement providing the information requested in the corresponding form and if the response from the government department is favourable, the firm will be filed at the MSME Company Registry and be issued a certificate of accreditation as a micro, small or medium enterprise.

Female Farmers Programme

On 1st August, Puerto Rico's legislative assembly passed Law 58 creating the Farming Women Programme, run by Puerto Rico's Agriculture Department, to promote and develop the participation of women in farming, providing help, guidelines and making it easier for those women farmers defined in the regulation as *bona fide* to access essential services.

Bona fide female farmers

Article 2c) of the regulation covers any natural or legal person who, during the tax year for which they are claiming the deductions, exemptions or tax advantages provided for under [Law 225-1995 on Agricultural Contributory Incentives in Puerto Rico](#), has a valid certificate issued by the Department of Agriculture. This document has to validate that, during the period in question, the person has been engaged in an activity classified as a Farming Business and that the person takes at least 50% of this enterprise's gross revenue as its operator, owner or lessor, as stated on their income tax return.

Farming business

To define the scope of application, the law describes the category of Farming Business. Any operation or exploitation in the Associated Free State of Puerto Rico in businesses such as: working and farming land to produce fruit or vegetables, whether as animal fodder or for human consumption; animal

stockbreeding for meat, milk and egg production; horse breeding; agro-industrial and agri-business operations; activities relating to fishing and flower farming, among others, are classified as a farming business.

The regulation leaves the definition open to include any business that is recognised as a farming business by the Puerto Rican Secretary of Agriculture.

The Programme

The Programme will offer seminars and workshops that are directly related to the needs that have been identified in the farming sector over the years, such as: marketing, production, quality, security and managing this type of business. These activities will be organised through cooperation agreements between the State and Federal Departments, together with other institutions such as the [University of Puerto Rico's Farming Sciences College](#) or the [Department of Work and Human Resources' Training for the Businesspeople of the Future](#).

Furthermore, in order to facilitate financing for these farming programmes led by women, the bodies listed above and the [Puerto Rican Economic Development Bank](#) will grant incentives and aid and it will be possible to receive contributions and donations to collect funds for the programme.

Research, studies and reports

This programme to stimulate the efficiency, productivity and marketing of local farming products sold by women must be supported by an annual report on the progress made. In addition, research and studies that deal with the particular needs of these producers should be promoted.

Nicaragua: Paving the way to faster growth and inclusion, Systematic Country Diagnostic

This World Bank document diagnoses the economic situation in Nicaragua.

It argues that, despite the growth enjoyed in recent years, the poverty ratio continues to be high, mainly concentrated in rural areas. According to non-monetary indicators such as health, education, quality of life, access to drinking water and sanitation, it is one of the poorest countries.

Furthermore, the World Bank acknowledges that although there has been significant progress in reducing gender inequality, pointing to the participation of women in political posts and the high level of female entrepreneurship, there are still gender differences in the labour market.

Finally, the document identifies priority areas in which the government must focus its attention, so that by acting directly on these, it can achieve growth and sustainability in the country, reducing poverty rates and increasing inclusion, which is a key factor.

Saving for development

As it does every year, the Inter-American Development Bank (IDB) presents a research under the banner of its flagship publication Development in the Americas (DIA). The title chosen for 2017 is “Saving for Development”. The research throws up a very different idea about the reasons for saving from the traditional view: the reason is not based on the need for protection against chance adverse events, but in its more positive consideration of growth, prosperity and wellbeing.

According to these findings, all economic agents need to look at saving from this another perspective: people save to achieve a comfortable lifestyle, enterprises do so in order to position themselves on the market with competitive products and good quality jobs, and governments save in order to provide the goods and services appropriate to guaranteeing a productive economy.

After concluding that the poor state of saving in the region is manifest, it lays out the strategic goals that these agents should adopt: creating a favourable climate for saving and spending more efficiently, thus generating more savings in order to shore up growth; promoting the development of financial systems, repairing retirement systems and encouraging a culture of household saving.

Economic Research on Latin America and the Caribbean

2017

The Economic Commission for Latin America and the Caribbean's (ECLAC) Economic Development division has published issue nº 69 of its Latin America and the Caribbean's Economic Study, presenting information updated to 30th June 2017 with the official data bases provided by its member countries.

The study consists of three sections, highlighting the importance of macroeconomic policies to drive long-term growth and achieve change in the region's economies.

Along these lines, the first part of the study analyses the regional economy's performance in 2016 and its performance in the first half of 2017, assessing internal and external factors impacting the economy in the region.

The second section makes a comparison between the current 2009-2016 cycle and the two previous cycles, 1990-2001 and 2002-2008, looking to find the issues that shaped them and identifying strategies that contribute to growth in the region.

The third section, available on the [ECLAC](#) website, includes notes on the economic performance of each of the countries in the region in 2016 and the first half of 2017, and ends with statistics in the appendices.

The study reveals that, unlike last year, in 2017 all the countries in the study, except for Venezuela and two Caribbean countries, Santa Lucia and Suriname, will have positive growth rates.

Strengthening Municipal Savings and Loan Unions

On 13th July 2017, the Peruvian Congress passed a law amending and strengthening the manner in which Municipal Savings & Loan Unions (hereinafter, “MSLUs”), adapting Supreme Decree 157-90-EF published in 1990 into line with the modernisation process that these institutions have been going through, by creating mechanisms and conditions similar to those applying to private microfinance institutions. This project was already analyzed in [number 11](#) of Progreso.

The main regulatory changes are as follows:

Capital, reserves and profits

Article 4 of the Supreme Decree sets the minimum capital required for setting up and operating MSLUs at PEN 4,050.00 (100 tax units). The new law raises this sum to PEN 7,500,000.00, the same as the minimum capital required for a company under the General Financial and Insurance System and Organic Law governing the Banking & Insurance Authority (hereinafter, “General Law”).

On the subject of profits, this law makes it obligatory to capitalise at least fifty per cent; the remainder may be (i) distributed in the form of dividends to the municipality in question, (ii) capitalised, (iii) set aside as discretionary reserves, or (iv) left to accumulate on the income statement. In the event of the MSLU opting to distribute profits in the form of dividends, the municipality will be obliged to spend this money on social programmes.

The modified rule also touches on corporate governance and risk management in MSLUs, indicating that, in the event of these not meeting the standards required by the Banking, Insurance & Private Pension Fund Managers Authority

(hereinafter, the “Authority”), the minimum capitalisation ratio may be raised to seventy five per cent.

Transactions

The law broadens the range of transactions MSLUs may conduct, in line with the remit given in the General Law, giving them greater operational flexibility.

Governing Bodies

As discussed by Superintendent Socorro Heysen Zegarra in [the interview](#) conducted in this issue of Progreso, the law seeks to strengthen corporate governance in MSLUs

The Supreme Decree considered the Steering Committee and Management Committee as the MSLUs’ governing bodies. However, the new regulations, while still considering the Management Committee as a governing body, changes the name of the Steering Committee to Board of Directors and includes the General Shareholders’ meeting, whose powers are described in each MSLU’s statutes, which must be approved by the Authority.

Similarly, the law has altered the composition of the Board of Directors. standardising the positions on the Board and mandating it to have representation from seven groups: the majority party on the Municipal Council (2), the minority party on the Municipal Council (1), COFIDE (1), the Chamber of Commerce (1), the Clergy (1) and the Small Tradespeople and Producers in the region where the MSLU operates (1). Whereas members of the Steering Committee used to be in office for one-year terms, members of the Board are elected for three-year terms, giving this body greater stability.

The Supreme Decree stipulated that board meetings should be held once a quarter; now, with the amendment, the Chair of the Board must convene meetings twice a month at the most and hold meetings at least once a month; Directors shall be paid a maximum of three allowances a month for their participation on

the Board and/or on the committees required by legislation current at the time.

The Supreme Decree laid down that the Management Committee should be made up of two or three natural persons, meeting once a week over a four-year term of office. This disposition has been modified in the new law, which indicates expressly that the Management Committee should henceforth comprise three members appointed by the Board of Directors for an indefinite period who should meet once a month, and that the position of General Manager should be created, after authorisation from the Authority.

The law is also about of Peruvian Federation of Municipal Savings & Loan Unions – FEPCMAC that represents and coordinates the activities of the MSLU system in Peru and abroad.

The amendment to the law that affects the Federation and differs from the Supreme Decree, allows for a period in which the Authority can oversee FEPCMAC until 2019, and also extends its functions to include:

- Articulating the development of initiatives and/or programmes within the MSLU system, to help to make it more competitive and financially sustainable.
- Handling centralised hiring and procurement and supporting the optimisation of synergies between them.
- Providing services to the MSLUs in accordance with existing legislation.
- Making financial investments on its own account or at the request of the MSLUs.
- Having representation on the MSLU Fund's Board of Directors.

As to FEPCMAC's General Meeting, the amendments have excluded the Provincial Mayor from being a participant, accepting only that each MSLU send a delegation, to include the Chair of

their board and a member of the management committee.

The Board of Directors is FEPCMAC's administrative body and comprises the Chair of the Federation of Municipal Savings & Loan Unions and a representative from each MSLU, who has to be the Chair of his/her respective Board or a Manager of the MSLU in question.

As to senior management, under the Supreme Decree, Boards made appointments for a four-year term, which has been modified by the new law, which extends appointments for an indefinite period.

The Supreme Decree required FEPCMAC to have an Audit department whose Director needed approval from the country's Comptroller General to be appointed or dismissed. However, the amendment to the law has made this more flexible, granting the Board of Directors the power to appoint and dismiss the Head of the Internal Audit unit.

The law also refers to the Municipal Savings & Loan Unions Fund – FOCMAC who coordinates the flow of financial resources from domestic and foreign institutions to the MSLUs.

The law recognises FOCMAC as a non-state legal person under public law operating within the legal framework of a limited company, whose employees are subject to private sector labour law and whose organisation, leadership and administration is the responsibility of shareholders, the Board of Directors and the management board.

The Supreme Decree took into account the contributions to FOCMAC's capital made by the MSLUs and the sums disbursed by foreign institutions. However, the amendments classify nominative shares as capital, and permit both domestic and foreign investors to participate.

Those of FOCMAC's transactions that were designed to obtain resources from third parties have been changed so as to

provide profits and support to MSLUs. In addition, profits earned by FOCMAC transactions will have to be used in the first instance to set up a legal reserve, and the amended law sets out a protocol for the percentage of profits remaining whether third party investors have taken part or not.

The supplementary clauses prohibit MSLUs from financing political campaigns or paying expenses linked to their shareholders. It also requires MSLUs and FOCMAC to have their own Internal Audit units and to be responsible for choosing and hiring external audit companies.

Finally, the provisions exclude MSLUs, FEPCMAC and FOCMAC from the effects of any law or regulation pertaining to the National Budget System, or the State Hiring Law, its regulations and standards, so that MSLUs may have greater liberty when hiring third parties, and can design their own hiring regulations.

Financial Inclusion Report

The Banca de las Oportunidades [Bank of Opportunities] and the Colombian Financial Authority have published their sixth Financial Inclusion Report. This sets the principal financial inclusion indicators that measure penetration, the proportion of individuals and enterprises possessing financial products, the dynamics of savings, credit and insurance products, an analysis of transaction channels and progress made in the area of financial consumer protection.

This document acknowledges the critical importance of access to digital payment systems and access to formal financial services in reducing poverty and working towards gender equality, and their part in improving people's skills, particularly in the case of women.

It highlights the importance of the public policies for financial inclusion that countries need, so that they can identify the transformations and challenges that financial systems must deal with.

To this end, in 2016 the Government of Colombia created its National Financial Inclusion Strategy, prioritising four key areas: (i) raising the use of formal financial products and services and online transactions, (ii) deepening financial inclusion (access and use) among the rural population, (iii) developing alternative financing mechanisms for small and medium sized enterprises (SMEs) and (iv) designing and setting up the National Economic and Financial Literacy Strategy.

The report analyses access to and use of financial services, consumer protection, savings, remittances and insurance in Colombia between 2010 and 2016.

Read the report clicking [here](#).

**Socorro Heyzen Zegarra, Head
of Peru's Banking, Insurance
& Private Pension Fund**

Authority

Socorro Heyzen Zegarra has been Head of Peru's Banking, Insurance & Private Pension Fund Authority (SBS) since August 2016, and is the first woman to hold the post.

She is an expert in the regulation and oversight of banks and microfinance entities. She has discharged these roles in public institutions and international financial bodies, holding high-level positions in Peru's central bank as Deputy Manager of the Monetary Sector, in the Banking, Insurance & Private Pension Fund Authority (SBS) itself as deputy Head of Banking, and in the International Monetary Fund (IMF) as Deputy Head of the Banking Regulation & Supervision Division.

She has sat on the Boards of Peru's National Companies & Securities Commission (now the Securities Market Authority of Peru) and of ASBA, the Association of Banking Supervisors in the Americas. She has also been a consultant for the IMF and the World Bank in a number of countries.

Before taking the post as Head of the Authority, she was Deputy General Manager of Economic Research at Financiera Confianza, an institution that is part of the BBVA Microfinance Foundation.

She has a degree in Economics from Peru's Pontificia Universidad Católica (PUCP) and a Master's in Economics from the University of California (UCLA).

1. Throughout your career you've held a wide range of posts in public and private institutions, as well as in a number of international financial

bodies, so you've had plenty of chances to observe and oversee how banks and microfinance institutions work. How has the microfinance sector changed in the last three decades? How have Latin American microfinance institutions in particular contributed to that change?

Microfinance has changed a great deal. It was only in the eighties when microfinance began to be regulated, and now we have a mature, competitive microfinance sector with standing worldwide. Latin America, and Peru, in particular, has been one of the pioneers of this development.

In the first few years we saw the entry of microfinance institutions into a market (small and micro enterprises) that was not being served by traditional banking, which triggered the initial demand to design credit technologies suited to this segment, in the framework of regulation that was also evolving to keep up. Later, when it became clear that microfinance could be profitable, the sector had to face competition from the banks and other financial institutions that jumped in to compete for the target segment. At the moment, the process of consolidation in the microfinance sector is helping to strengthen successful business models and generating operating efficiencies (economies of scale).

2. You are currently the head of the SBS, Peru's Banking, Insurance & Private Pension Fund Managers' authority. What are the main challenges facing microfinance institutions, in your view?

Competition is increasing and economic growth rates are

flagging, so microfinance institutions must be able to handle a range of challenges if they are to be sustainable. The list is quite long. We could start by mentioning the need to manage financial margins in the context of the trend we are seeing of decreasing profitability from the loanbook.

Then we have: adding value to financial products to retain users, who are now better informed and are demanding higher quality services (which means basing management on customer service quality); developing more efficient, more stable funding strategies; finding ways of improving operating efficiency by making investments in technology and infrastructure profitable, in order to reduce operating costs without sacrificing risk management; and having solid strategies and processes that guarantee that talent hiring, training and retention procedures are professional, specialised, committed and comprehensive.

The final challenge is to satisfy the SBS, which now has a denser set of regulatory requirements that seek to make standards in corporate governance, risk management and market conduct more robust.

3. What would be the main areas that specific microfinance legislation should tackle in order to work towards the sustainable development of the sector?

Over the years we've worked on legislation that creates a nurturing environment in which the financial system and microfinance can develop. So, our regulatory arena meets international banking supervisory standards, underpinned by a set of regulations specifically for microfinance. There's a clear definition of micro-lending so that it can be supervised, whatever the type of institution providing it. We have regulation that encourages integrated risk management and best practices in corporate governance, commensurate with the

type of institution and the type and complexity of its transactions. Our regulation makes it easier to set up lean customer-service channels, such as correspondent ATMs, which do a great deal to encourage financial inclusion. In addition, while prices can be set freely, there are transparency of information requirements in place that safeguard users.

We also have a credit-ratings agency that has comprehensive information, allowing institutions to manage their risks and borrowers to check their credit ratings. We designed an app that enables borrowers to directly find out their credit rating free of charge and to receive alerts if their rating is changed. The SBS received the 2017 Good Practices in Public Management award, given by the organisation *Ciudadanos al Día*.

This has all meant that for nine years in a row Peru has come first in the ranking of the best environment for microfinance. Nevertheless, we have a lot of ground yet to cover and we're going to work on three key issues.

First, in the prudential field, we want to update our regulations on classifying delinquents and provisioning, so that the mandatory provisioning better reflects expected losses from different types of credit. Second, in the field of market conduct, we have an ambitious goal: more responsible behaviour, so that customers of regulated companies receive fair treatment, with appropriate and transparent information. To this end, we've issued new corporate governance and market conduct regulations, which make the entire organisation accountable for an institution's conduct and the respect it shows to its users. Third, we need to establish a framework that encourages innovation, while always keeping an eye on the risks. The current highly competitive climate makes institutions more willing to sign up new customers whom they haven't been able to attract in the past, given the business models available to them. So now they have to innovate, and we'll be working to facilitate that innovation.

4. What measures should institutions in the financial sector adopt to support the most vulnerable?

I believe that supporting vulnerable groups is a task for the State, using financial inclusion policies, rather than something that financial institutions should do. With that aim, Peru has a National Financial Inclusion Strategy, in recognition of the importance of policies such as this when used as instruments that promote social inclusion and the country's economic development. The SBS took a very active part in designing this strategy and has been helping to implement it since its launch in 2015.

If the State is fulfilling this essential role of creating the right environment for financial inclusion to flourish, the role of financial institutions is to push through inclusive and responsible business models, enabling vulnerable populations to access and use financial services. To do this, they must work very hard on understanding what these groups need, and offer them useful products and services; they also have to implement policies that result in all citizens being treated with respect, fairness and responsibly.

5. BBVAMF currently serves nearly two million people in Latin America of whom 77% are vulnerable and 60% are women who have managed to improve their standard of living, their children's education and their own human development. Do you think that microfinance is a useful instrument for empowering women and

creating the right conditions for their social and economic development? What more needs to be done to provide women with greater access to the financial sector?

My answer to the first question is “definitely”. By giving them access to safe saving, financial institutions contribute to improving standards of living for women and their families, smoothing the variations in their incomes and making it possible for them to buy assets and durable goods. Micro-loans, when managed responsibly, have the potential to give them the opportunity to develop a productive business that generates enough income to pay off the loan and give them financial independence. Doing this also raises their confidence and self-esteem, empowering them to take on other goals. Finally, insurance enables families to manage their risks better, dealing with negative events such as El Niño, illness or unemployment, so that they have less impact on the household’s normal consumption levels.

BBVAMF’s experience with responsible microfinance is proof of this. I want to stress the word responsible; that is, putting customers first. Because irresponsible microfinance can be damaging. It can have a negative effect on standards of living and lead to exclusion from the financial system.

What’s more, supporting women is profitable in societal terms. A number of studies have shown that female borrowers use their income mainly to cover household and/or children’s expenses, which results in better outcomes for the family and for society as a whole.

6. You were the first woman to be

appointed head of Peru's Banking, Insurance & Private Pension Fund Managers' authority. Do you think that the public policies in Latin American nations are driving women's professional progress? Do you think that outlooks are changing in corporations and in society at large?

The number of women in senior management positions in both the public and private sectors is shamefully low, but it is better than ten years ago. That proves that we are making progress, albeit at a rate that should be faster. Social reforms, such as in education, are going to help speed up that progress in the long term. For the moment, we are seeing a major push for change, for equality, freedom and respect for the rights of all. I believe that this great social force for change will also trigger demands for more inclusive policies, ones that drive women's professional development.

7. In your opinion, what do you think are microfinance's greatest strengths and weaknesses, and what measures could be taken to reinforce its impact?

Among its strengths is specialisation in credit technology; a credit offering that is unique and can penetrate areas that are ready to be banked; not concentrated on a few big borrowers; and an attractive market for outside for-profit and social investors. Its weaknesses include low penetration in rural areas because of high operating costs (Peru's geography and population dispersal); informal and unregulated companies competing directly with microfinance institutions, providing finance to the same target market (small and micro-companies);

and insufficient innovation in business models to adapt to the new competitive environment.

To overcome these weaknesses, we work constantly on initiatives that contribute to a sounder, more integrated financial system. So, we now have [Law 30607, modifying the operations of Municipal Savings & Loan Building Societies](#) (CMAC in the Spanish acronym), and new [regulations on Corporate Governance and Integrated Risk Management](#). As well as this, there is the new law on Savings & Loan cooperatives.

We're also taking steps to improve operating efficiency and harness synergies, which will lead towards greater consolidation of the financial system; and we are very actively coordinating several sectors so that financial literacy is more widely taught, while rolling out different activities to improve financial inclusion and the use of digital payment systems.

8. A law to strengthen Municipal Savings & Loan Building Societies (CMAC) has been passed recently in Peru to make corporate governance in these institutions more robust. What is the desired effect of pushing through these good corporate governance practices in the microfinance sector?

You are right, one of the main aims of Law 30607 is to make corporate governance in municipal savings & loan building societies (CMAC) more rigorous, so that they can compete on equal terms with private financial institutions and attract new investors.

The different roles of the General Meeting and of the Board of Directors have been clearly laid out, and are similar to the

roles already in place for private-sector financial institutions. Minority shareholders will also be allowed representation on the board if they have a 7.5% stake or higher, which opens up the possibility of international bodies or other institutions buying into CMAC capital. Directors are now elected for a standard three-year term of office, so they have a longer time horizon to get to know the institution and see what they can contribute to it.

This new law has coincided with the publication of new corporate governance and market conduct regulations. We are well on the way towards establishing the practices of corporate governance and conduct that are found in developed economies. This is part of the efforts all members of the OECD must make, but also part of the drive to give Peruvians a robust, comprehensive and inclusive financial system that supports the country's development.

9. What has your first year as head of the Banking, Insurance & Private Pension Fund Managers' authority been like? Which achievement would you be most proud of accomplishing in your time at the Authority?

It's difficult to choose just one. I believe that a whole array of regulation and supervision is needed, as well as actions to improve the internal management of the SBS, in order to get closer to the real goal, which is for the Peruvians to have a robust, comprehensive and inclusive financial system that helps them improve their standard of living. That's why we need an effective Authority that is conscious of the important part it plays in the country's progress; we need regulation and oversight that creates the right environment for the financial system to develop sustainably.

10. Your recommendations for a book and a destination?

With my economist's hat on, I would recommend "Economics for the Common Good", by Jean Tirole. It's a book that both economists and non-economists can read to get an understanding of some of the dilemmas of public policy. It explains how the market and the State are complementary, making clear that for markets to work well, the State has to work well.

Peru has marvellous places off the beaten track. For example, last year on a trip to Ayacucho and Andahuaylas, I discovered Vischongo, a charming little village two hours away from Ayacucho, with extraordinary people, beautiful country like Titankayoc, the huge forest of Puya Raimondi and great potential for tourism development. Asphaltting the roads has brought down the travelling time between Ayacucho and Vischongo, although telecommunications connectivity needs to be improved to make financial inclusion feasible.

Self-assessment wage equality guides

On 10th August, the Department of Work and Human Resources published guides that employers can use to meet the requirements of Puerto Rico's Wage Equality Act 16-2017 and Act 61-2017.

The guides contain recommendations and guidelines on how to eliminate gender-based wage differences; that is, they do not list rights and obligations, nor do they exempt employers from liability, if applicable, for a possible breach of article 3

of 16-2017 on wage discrimination.

Using these guides, employers can make self-assessments to determine whether they comply with the regulations on equal pay between genders. If the results of a self-assessment reveal inequality based solely on gender discrimination, they should take measures to eradicate this, without prejudice to the wage conditions of any employee.

The guides focus on three key issues: hiring, classification schemes and bonuses or other extra payments. Some of the most interesting ideas expressed are:

- Legal non-compliance will be deemed to exist if employers investigate an employee's wage history.
- The guides allow the employer to establish classification schemes using the minimum requirements necessary to be eligible for a job position.
- The guide recommends that a list be made of the additional competences beyond the minimum requirements, including the monetary percentage increment for each additional skill, so that the employee's compensation can be calculated mathematically, thus eliminating any subjective factors.
- Provision is made for the option of creating, at the employer's discretion, additional objective compensation that can be assessed using criteria such as production volumes, sales, earnings or quality, among others.

For these reasons, the scope of the guide goes beyond ensuring that staff receive the wages they deserve: it helps to raise productivity and, ultimately, to achieve harmony in the workplace, as explained in the introduction.

Treatment of Politically Exposed Persons

As reported in [issue 4](#) of *Progreso*, the new legal framework in the fight against money laundering was defined in [Directive 2015/849 of the European Parliament and of the Council](#) adopted on 20th May 2015.

When the EU regulation came into force on 26th June, the United Kingdom's FCA published its Guidelines on handling Politically Exposed Persons (PEPs) in order to clarify the new MLR 2017 regulations "*The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer)*", Regulations 2017 No. 692 which were passed to support the transposition of the Directive referred to above.

These regulations published by the United Kingdom replace those from 2007 on money laundering and transfer of funds.

Although the new regulations do not make significant changes to the system for preventing financial crime, some existing rules have been made tougher. Among the most important of these, and explained in the guidance, are the following:

- Trustees have greater information disclosure obligations
- The number of people exempted from the regulation's scope of application have been reduced by changes to the definition of "occasionally or in a very limited manner":
 - Annual business turnover from financial activity must be under £100,000 (this figure was previously £64,000).
 - Activity limited to transactions of under €1,000 per customer.
 - Financial activities that are supplementary and

directly related to the principal activity.

– Financial activity that is less than 5% of the natural or legal person's total business turnover.

- A case-by-case risk assessment of PEPs is required, rather than a generic approach. The guidance sets indicators to mark the boundaries between lower and higher risk scenarios.
- Failure to comply with simplified due diligence for any transaction is no longer valid. Companies must proactively decide whether this simplified check is enough for a particular transaction or whether an enhanced assessment is necessary.

The earlier regulations have been reinforced in terms of the measures that those bound by the rules must adopt in order to meet their obligations in the area of financial crime.

National “Your Enterprise” Programme

On 24th August 2017, the Council of Ministers passed a Supreme Decree creating the National “Your Enterprise” Programme, in response to the high levels of business not reported to the tax authorities but appearing among micro and small enterprises registered on the 2015 National Household Survey.

The programme will run for ten (10) years and aims to help raise productivity and sales in micro and small enterprises,

making it easier for these firms to join the financial system, access formal lending, digitise their activity and develop entrepreneurial skills, using the Entrepreneurial Development Centres authorised by the Ministry for Production.

The programme's beneficiaries include micro and small enterprises led by women, by people suffering handicaps, older adults and families with at-risk children and adolescents.

The Programme's Operating Manual will be issued in no more than thirty (30) days after the Decree becomes law.

Microfinance. Beyond Poverty



*Mario Pavón, General Manager
of Fondo Esperanza*

“Realidad de las Microfinanzas en Chile”, a report drawn up by BBVA Research and presented by the BBVA Microfinance Foundation (BBVAMF), Fondo Esperanza (FE) and Emprende Microfinanzas reaffirms a very significant fact: with nearly two million microenterprises, Chile is an enterprising country.

Microenterprises provide employment to nearly one quarter of the country's workforce. However, the segment faces several challenges: 50% of the microenterprises are not incorporated into the formal economy. This means they can only provide

precarious access to healthcare, pension schemes and insurance and often lack the most basic safeguards against accidents at work. Moreover, the vast majority, some 78% of them, are run by people who have not been given any training in business administration.

It has been demonstrated that, among the multiple consequences of working in the informal sector, one of the most enduringly negative is not having access to social security. The figures tell a sad story. Of all the entrepreneurs in the country, 53% do not pay into any healthcare scheme; 69% do not pay into a pension scheme for their old age, and 88% have never taken out any kind of accident insurance.

On the other side of the coin, working in the formal sector offers a different kind of life. It facilitates access to social security. But that is not all. It also provides the opportunity to operate outside the limits of personal or family support networks. A declared business can raise loans and be eligible for subsidies. Moreover, businesses with their papers in order do not have the threat of fines hanging over them from the tax services. They are able to recover any value added tax that they incur, and issue invoices, establishing a sounder relationship with suppliers and customers.

The other problem mentioned was the absence of training. The main reason why so many entrepreneurs do not receive training is that they do not know how to get it, and sometimes fail to search it out as they do not appreciate the value of improving their business skills. However, those who have gone through training, consider it to have been useful. Being more skilled makes people more productive and increases sales. Training hones business acumen but also empowers entrepreneurs and allows them to perform better in many different aspects of their daily life, which, in turn, benefits their families and the communities in which they live.

The smaller the business, the more important these issues

become. Especially so in the case of women. 66% of women are working in businesses with low revenues, below USD 350 a month.

In this context, microfinance can be seen as a tool that enables borrowers to exit poverty, reducing their vulnerability and promoting their inclusion within the formal economy. It creates a virtuous circle: Gradually, as entrepreneurs see they are able to grow their microenterprises, their businesses flourish and this opens up multiple further opportunities to them.

In other words, microfinance is not an end in itself, but a means to overcome poverty. This is something that we see clearly in Fondo Esperanza. Which is why our central purpose is to contribute to enhancing the quality of life among entrepreneurs in vulnerable sectors, providing them with microfinance services, training and help in boosting their social-media profiles.

How do we do this? With a methodology that works through community banks, where a group of microentrepreneurs receive training from Fondo Esperanza and support each other. As members of the group, they acquire the commitment to stand guarantee for each other's interest and capital payments. This generates new links between them and provides them all with better and wider support networks.

Through the thousands of entrepreneurs forming part of Fondo Esperanza –of which 91% are vulnerable– we have been able to witness how much progress they make, seeing them develop and enhance their skills. They incorporate business tools and concepts that at the beginning they might have considered beyond their reach. Yet over time, they become a natural part of their know-how. These entrepreneurs know how to record sales and revenues, track cash flow, separate their business capital from their household expenses, and keep on learning.

With these initial developments, they start to blossom on the personal as well as the entrepreneurial front. After a year and a half in the institution, on average, members' equity capital has risen by 20%. And there are other indicators showing improvements too. The number of people that they can turn to when they have business problems, increases by over 50%. And their businesses grow. Sales rise, on average, by 43% and surpluses by 54%.

Coming back to the data presented by BBVA Research, these show that the majority of start-ups in Chile are precarious. The challenge is huge and much remains to be done.

It is this challenge that inspires BBVAMFF's mission, as well as the mission of Fondo Esperanza and other institutions in Chile that are working with this segment. Every service and product offered not only complies with exacting quality standards, but also aims to meet the real needs of the entrepreneurs. They help them to reduce costs and minimise their risks when they decide to raise funding. In this manner, these entrepreneurs can grow their businesses and achieve their goals.

The development of microfinance is a demanding task that needs to be taken up by all the countries in the region. It is essential to the fight against poverty and inequality. However, we should never forget that although financial inclusion and access to services can allow people to significantly increase their probabilities of winning the battle and making their dreams come true, it is the entrepreneurs themselves that are on the forefront of the battle, day in and day out, fighting to improve the quality of their own lives and the lives of those around them.

Practical guide to self-diagnosis and reporting on Regulatory Compliance, Good Corporate Governance and Prevention of Corruption

At the moment, companies make a voluntary decision whether to implement measures and practices that enable them to build a business culture based on responsibility, good governance and transparency.

Against this backdrop, Transparency International Spain has published this guide * to help companies to conduct their self-assessments in order to strengthen their policies in the areas of regulatory compliance, corporate governance, prevention of corruption and public disclosure country by country. It is a tool for measuring and assessing the quality of the programmes in these areas and for supporting improvements to companies' reporting levels.

Each of the issues listed above can make use of the following: obligatory regulatory compliance indicators, voluntary compliance indicators and recommended compliance indicators. There are 273 in all, of which 144 are self-diagnosed, while 129 cover reporting.

The results obtained from this self-assessment are grouped into three levels: moderate, medium or maximum, enabling companies to know their level of compliance.

The Guide addresses mainly listed Spanish companies, because of the homogeneous nature of their business profiles. Nevertheless, it is valuable for both major, non-listed corporations and for small and medium sized firms. The Guide

recommends that the self-diagnosis be conducted by the department heads of Compliance, Corporate Governance, Legal, Internal Audit and Corporate Transparency, or their equivalents.

You may also find these interesting:

- [Detailed good practice guidelines for applying the “comply or explain” principle](#) (Spain’s National Securities Commission)
- [Guidelines of basic principles for MSMEs](#) (Jamaica)

*Transparency International España (2017). Practical guide to self-diagnosis and reporting on Regulatory Compliance, Good Corporate Governance and Prevention of Corruption. Madrid. **Authors:** Senior Researcher: Dr. Silvina Bacigalupo Saggese, Professor of Criminal Law. Universidad Autónoma de Madrid (UAM), (Madrid Autonomous University). **Researcher:** David Martinez Garcia, Lawyer. Investigator for Transparency International España.

Toolbox for the Economic Empowerment of Rural Women Entrepreneurs

The *Broadening Economic Opportunities for Rural Women Entrepreneurs in Latin America* (BE0) programme was launched in 2013 with funding from the International Fund for Agricultural Development (IFAD) and UN Women. It contributes to the economic empowerment of rural women entrepreneurs in four

countries: El Salvador, Guatemala, Mexico and Nicaragua

The programme's key goals are (i) to research effective approaches and processes for developing the skills of excluded rural women so that they can better manage and market their business ventures, and (ii) to explore techniques for increasing the voice and power of rural women so that they have a say in local development priorities and processes, as well as in policies that are relevant to them.

The programme has systematised working processes, generating learning and examples of good practice in achieving rural women's empowerment. These have been shared, using a toolbox of ten guidelines, with organisations and institutions that seek to make women's economic, political and physical autonomy more robust and include instruments and formats that have been used during the programme that can be replicated in other work conducted with rural women entrepreneurs.

Mutual Guarantee System

On 6th June 2017 the Senate passed the Bill creating the Mutual Guarantee System which makes it easier for Micro, Small and Medium-sized Enterprises (MSMEs) to access formal financing, as well as helping them with hiring and procurement of public and private goods and services.

The law creates two legal entities to mitigate the difficulties faced by MSMEs in accessing formal financing at a lower cost. They are "Mutual Guarantee Companies" and "Bonding Companies", whose partners can be legal or natural persons, public or private, Dominican or foreign, and may be classified

as shareholders or patrons.

Mutual guarantee companies extend guarantees for their shareholders, to back up obligations relating to their productive, professional and commercial activities, as well as providing technical, economic and financial advice to their shareholders, either directly or through third parties, and managing the credit facilities.

A company of this nature must have at least one (1) patron and at least twenty-five (25) shareholders; its corporate capital must be made up of their monetary contributions, with subscribed and paid up equity of at least DOP 50 million (DOP 50,000,000.00). The nominal value of each share should be DOP one hundred (DOP 100.00).

Mutual guarantee companies are to have general meetings and a board of directors as their governing bodies, as well as an audit committee, whose functions will be:

- (i) To verify on a regular basis the investments, guarantee contracts and the situation of corporate capital, reserves and risk coverage.

- (ii) Attend to the requirements and requests for clarification that may be received from the Banking Authority.

Bonding companies provide counter-guarantees for mutual guarantee companies, inasmuch as they offer additional cover for the risk taken on by these when granting guarantees to their shareholders. Their equity may be public, private or mixed, and should not be lower than DOP 75 million (DOP 75,000,000.00), while the nominal value of each share should be DOP one hundred (DOP 100.00).

Put simply, we could say that mutual guarantee firms will provide guarantees by issuing sureties, called guarantee certificates, to MSMEs, while bonding companies will

underwrite the mutual guarantee companies to cover the risk from the sureties they have given.

Both types of company are bound by the regulations of the Monetary Board which in turn sets the rules on authorising, opening, operating, winding up and liquidating these companies.

The regulation distinguishes between three types of guarantee and surety:

- Financial guarantees: these give access to financing, issuing negotiable obligations and short term securities, discounting invoices, leasing and other transactions on the capital market.
- Commercial guarantees: guaranteeing transactions between companies, especially companies with links to one another, by using value chains.
- Technical guarantees: guaranteeing that obligations with government bodies and departments and other public entities, private customers and suppliers will be met, including those that are required by law over procurement and hiring of goods, services, building works, concessions and their modification.

The mutual guarantee contract will be considered as an enforceable instrument for the amount of the principal debt, interest and incidental charges, as well as the sum of the guarantee issued, and will be formalised in the presence of a public notary.

Similarly, the regulation establishes the infractions that can be penalised in the case of those companies and/or people holding positions as directors in these in the event of their non-compliance with the law or its regulations. These infractions may be quantitative if they involve a discrepancy, above or below, in the amount of funds required as per the

regulations, or they may be qualitative in the event of non-compliance with the legal provisions that does not involve a sum of money; all this is in addition to the administrative sanctions.

The law's regulations and the modifications it implies in other regulations must be published within one hundred and eighty (180) days of the law being enacted.

Guide to the responsibilities of banking boards of directors and bank shareholders

Panama's Banking Authority, the SBP, through the General Office of Regulation, recently presented, alongside its [White Paper on Banking Regulation](#), the third edition of its Guide to the Responsibilities of the Boards of Directors of Banks and Owners of Banking Shares.

Firstly, the fourth edition of the White Paper on Banking Regulation brings together nearly 20 years of legislation, with the decisions adopted, in chronological order from 1998 to May 2017, as well as regulatory resolutions that are in force, with their respective modifications. It includes two appendices on the Anti-Money Laundering system and legislation on trustees.

The Guide itself lists those banking regulation articles currently in force (the Banking Act, all the SBP's Agreements & Resolutions issued since 1998) that ascribe direct liabilities to company directors, to the Boards of Directors of banks and to holders of banking shares. It contains some, although not all, of the updated regulatory articles that concern, among other matters:

- Disbarment of bank directors or managers.
- Market risk.
- Guidelines for loans and credit facilities to related parties.
- External audits.
- Corporate governance requirements for banking groups.
- Provisions for the prevention of improper use of banking services.

Good corporate governance is indispensable if the financial system is to work properly, as the guide notes. For this reason, the SPB is using this document to provide detailed information to the sector so that it meets the requirements contained in Article 55 of the Banking Act (Executive Decree 52, 30th April 2008) by virtue of which banks will be obliged to comply with the corporate governance standards dictated by the Banking Authority.

As such, it is a useful reference tool for banks and other interested parties in its comprehensive and efficient description of the legal framework.

Unequal. Origins, changes and

challenges in Chile's social divide

In June Silvia Rucks, resident representative of the United Nations Development Programme (UNDP) in Chile, launched her book *DESIGUALES. Orígenes, cambios y desafíos de la brecha social en Chile* [Unequal. Origins, changes and challenges in Chile's social divide]. A UNDP study that shines a light on the reality of the country and which is particularly relevant given that poverty reduction is one of the 17 Sustainable Development Goals (SDGs) in the 2030 Agenda, to which Chile is a signatory.

In the last 30 years, Chile has made great strides in improving its people's welfare. In fact it is one of the countries in Latin America that has been classified as high-medium income and its poverty rate is well below the average for the region, where it stands at the top of the Human Development Index (HDI). Nevertheless, reducing inequality is still a very pressing social problem.

A number of issues are discussed throughout the book that are inextricably bound up with the inequality of Chilean society, and are considered from two perspectives. The first has to do with social structures and the second with the ideals of equality and sentiments of justice and injustice. She argues that inequality goes beyond traditional socio-economic categories (income, education, health and standard of living), encompassing factors such as the respect which people are accorded. To this end, the study offers quantitative and qualitative evidence recognising inequality as it relates to decent treatment and lack of discrimination.

Among other ideas, the book mentions the World Bank's classification of wealth levels in Latin America. It divides these into four strata: poor, vulnerable, the middle classes

and upper class. This analysis puts forward a different set of categories: it recognises lower classes, lower middle classes, middle classes and upper middle and high classes depending on the professional occupations of their members and establishing a correlation between level of education and level of income.

The essay also alludes to the results obtained from the 2017 UNDP survey, according to which 41% of the universe surveyed said that they had suffered some kind of abuse in the preceding twelve months. What was most surprising were the reasons given for this abuse: social class (43%) and being a woman (41%), place of residence (28%), clothing (28%) and job or occupation (27%).

Some of the conclusions from the extensive report are:

- Despite the progress made in the last 15 years, more needs to be done to reduce the major income gaps between different social strata. The results of the 2015 Gini ratio are an example of this: in Chile it was 48%, whereas in nearly all OECD countries it is below 35%.
- A look at Chile's history shows that the country has always had a high level of socio-economic inequality, and that the poorest suffer from the greatest discrimination.
- Wage inequality in Chile is one of the highest among OECD countries even though, overall, wages grew by an average of 120% between 1990 and 2015.
- The social class in which someone is born determines their economic future and it is very difficult to move from that social status.
- Fiscal redistribution and social security mechanisms have been effective in reducing inequality over the last 25 years, but they are still under-used and failing to fulfil their full potential in tackling inequality.

Against this backdrop, the purpose of this book is plain: to work towards more inclusive development and a country with

greater social equality.

Reforms to the corporate governance system

As reported in [Issue 10](#) of *Progreso*, on 17th February the consultation period for the Green Paper presented by the British Prime Minister Theresa May's government ended. The Green Paper proposes the reform of certain areas of corporate governance in order to strengthen market confidence in the country's private sector.

At the end of the consultation period, the British government published this document, which analyses the feedback received on the Green Paper from nearly 400 companies. The government is making nine proposals for reform to British companies' corporate governance system. The proposed measures include actions that would have to be taken by industry and regulatory bodies, as well as changes to the UK's Corporate Governance Code and in upcoming legislation.

The proposals on the three key issues raised in the consultation are summarised below:

Executive pay

The government proposes to strengthen the hand of shareholders when decisions are taken about executives' salaries and to increase transparency on this issue:

1. It invites the [Financial Reporting Council](#) (FRC) to review the UK's Code of Corporate Governance and to bear the following considerations in mind:

- To define the measures that companies must take when there is significant shareholder opposition to executive salaries and bonuses.
- To give remuneration committees greater powers to supervise their company's pay and incentives, and to explain whether their executives' pay **is in line with the** corporate remuneration policy. In addition, it adds that, in order to chair this committee, the chairperson must have sat on a remuneration committee for at least 12 months, unless there is a clear and cogent reason why this would not be appropriate or feasible, according to each specific case.
- To extend from three to five years the minimum vesting and post-vesting holding period for executive share awards.

2. To modify the secondary legislation so that listed companies:

- Issue an annual report disclosing the ratio of CEO pay (counting the entire pay package) to the average pay of their UK workforce, explaining the annual changes to this ratio.
- Explain clearly and in detail remuneration policies that involve complex, long-term incentive plans.

3. To invite the [Investment Association](#) to maintain a public registry of companies that received "no" votes from at least 20% of their shareholders when their executive pay awards were approved; require them also to keep a record of the measures that companies adopt to address their shareholders' questions and concerns.

Representation of employees and other stakeholder groups in business decisions

Company directors must comply with the duties described in section 172 of the 2006 Companies Act about taking into

account the views and needs of their stakeholders (employees, customers, suppliers, etc.) to foster companies' long-term success for the benefit of their shareholders. To strengthen this compliance, the government proposes:

4. To review the Code of Corporate Governance in order to highlight the importance of strengthening the voice at board level of employees and other stakeholders, which it deems a critical component of sustainable business management. Specifically, it requires companies with a [premium listing](#) to adopt, on the basis of the "comply or explain" principle, one of these three employee participation mechanisms: designating a non-executive director to ensure that employees are considered when decisions are taken, appointing a director from the workforce, or having an employee advisory council.

5. To introduce new secondary legislation to oblige all companies of a significant size, whether they are public or private, to explain how their directors comply with the requirements in section 172.

6. It has asked the *Investment Association* and the [Institute of Chartered Secretaries and Administrators](#) (ICSA: The Governance Institute) to advise companies on practical ways to commit to their employees and other stakeholders. It also invites the General Counsel of the largest listed companies (the GC group in the FTSE100) to publish new advice and guidance on the practical interpretation of directors' duties in complying with section 172.

Corporate governance standards for major privately held companies

Although the highest standards of corporate governance in the United Kingdom are to be found in limited companies, in which on the whole the owners or shareholders are not the executives running the firm, the Green Paper considered the option of extending the mentioned principles to major privately-owned

companies. Addressing the comments received on this issue, the government proposes:

7. To invite selected bodies (the FRC working with the [Institute of Directors](#), the [Institute for Family Business](#) and the [British Venture Capital Association](#), among others) to develop a voluntary set of corporate governance principles for large privately-held companies, under the chairmanship of a business figure with relevant experience.

8. To introduce new secondary legislation to require all firms of a significant size to disclose their corporate governance arrangements in their Directors' Report and on their website.

Other issues

The Green Paper included a section which invited suggestions on other corporate governance issues not dealt with in earlier sections. After the consultation, certain concerns were seen to exist as to whether the FRC has sufficient powers, resources and status to perform its duties effectively.

9. To deal with these questions, the government asked the FRC, the [Insolvency Service](#) and the [Financial Conduct Authority](#) to revise their memoranda of understanding or conclude new ones before the end of the year, to ensure that they can enforce disciplinary measures on directors whose conduct does not meet the principles and guarantee the integrity of corporate governance reporting.

Next steps

The British government intends these reforms to become law in June 2018. The secondary legislation bill is scheduled to be laid before Parliament prior to March 2018.

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

Opportunities and Limitations of Village Banking and Challenges of a Transition to Individual Credit

This Research Paper was written for the **International Master in Microfinance for Entrepreneurship** at the Universidad Autónoma de Madrid, under the supervision of Claudio González-Vega (Ph.D.) and Paloma Pérez Castañares (M.Sc.). The research has attempted to answer the question: is the adoption of an individual credit technology, as an alternative product, an

effective innovation in overcoming the limitations of village banking and what are the challenges that must be faced by those involved in this process?

From their emergence in the 1980s, the Latin American microfinance institutions with a village banking technology have evolved in response to changes in the environment, their own limitations and other challenges. This Research Paper reviews the village banking technology and its main features, with a focus on its main limitations, and it attempts to bring light over a potential solution to those limitations: the adoption of individual credit alongside village banking. The analysis is illustrated with two case studies: CRECER (Bolivia) and Fondo Esperanza (Chile), and it includes open interviews with representatives of both institutions. The main hypothesis is that the adoption of individual credit alongside the village banking technology has been, despite the challenges encountered, a promising solution to overcome the key limitations of village banking technologies, in particular the problems emerging from loan amount and term to maturity rigidities and from the costs of frequent meetings. Nevertheless, the adoption of individual credit might not be a definitive factor, on its own, to promote increases in the client retention rates. In particular, individual credit would have to be complemented with other interventions, to preserve client trust and the building of social capital that the clients are used to, in particular when they result from their graduation from the village banking experience. In addition, it will be necessary to solve incentive problems among the staff that result from the coexistence of both technologies. In any case, these experiences are too recent to offer definitive conclusions. More experimentation will be needed.