Going global with international financial reporting standards

Globalised markets mean that regional accounting languages are no longer adequate. If stakeholders are to trust financial statements, all economies need to move towards internationally accepted standards

By Hans Hoogervorst, chair, International Accounting Standards Board

The truly global marketplace that has developed in recent decades has brought the need for truly global accounting standards. In many ways, this could be considered history repeating itself. In the past, changing standards and practices in business have driven the need for better ways to account for them. The first uniform accounting standards evolved in the form of national generally agreed accounting principles (GAAPs). As the influence of capital markets grew and domestic marketplaces became more sophisticated, investors recognised that markets needed a single, high-quality language to increase transparency and comparability that would allow them to make better informed investment decisions. The regional application of accounting rules was suitable at the time simply because companies borrowed and investors invested mostly in their home country.

Interconnected markets

This is no longer the case. Rapid and far-reaching technological breakthroughs have allowed the world to develop capital markets that are fully, comprehensively interconnected. Investors seeking diversification and return have been increasingly able to look overseas for opportunities.

Businesses have also become larger and more complex. It is not unusual now for even a moderately sized business to list on multiple stock exchanges, operate transnationally and have activities spanning multiple sectors.

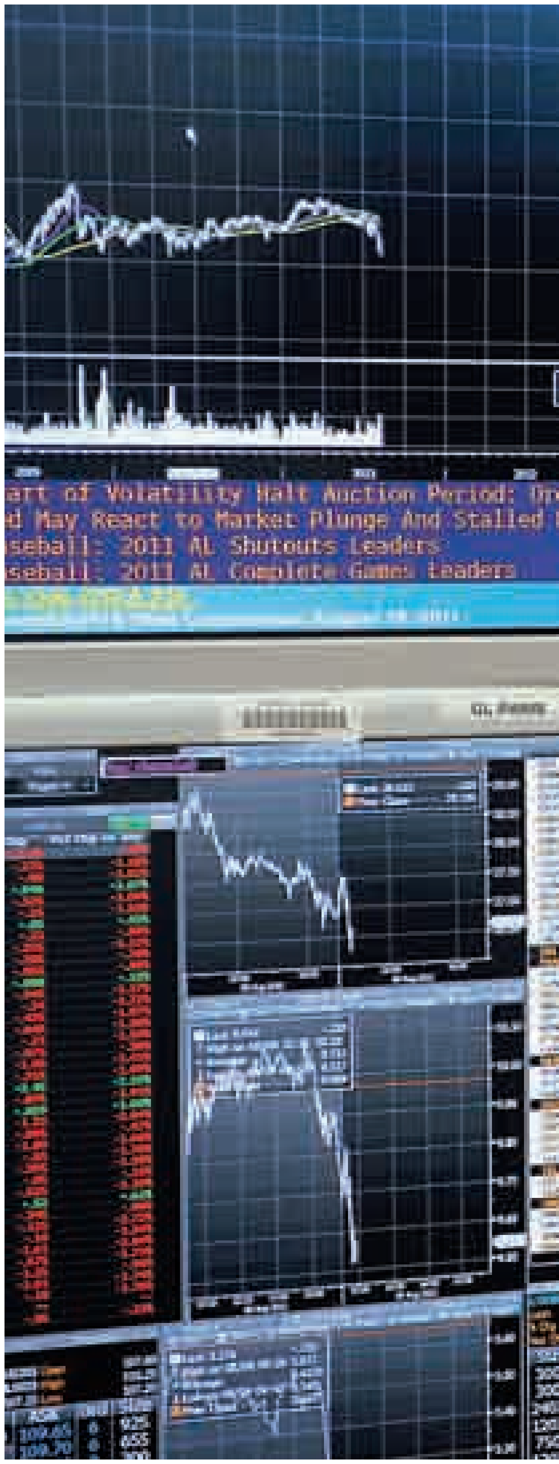
While these developments are capable of offering tremendous benefits to people all over the world, the downside is also apparent. As long as markets have existed, there have been periods of downturn and crisis. The global nature of today's economy means that these events are no longer localised but ripple across the world. The experience over the past four years in the wake of the sub-prime crisis in the United States and the current troubles within the eurozone are testament to this.

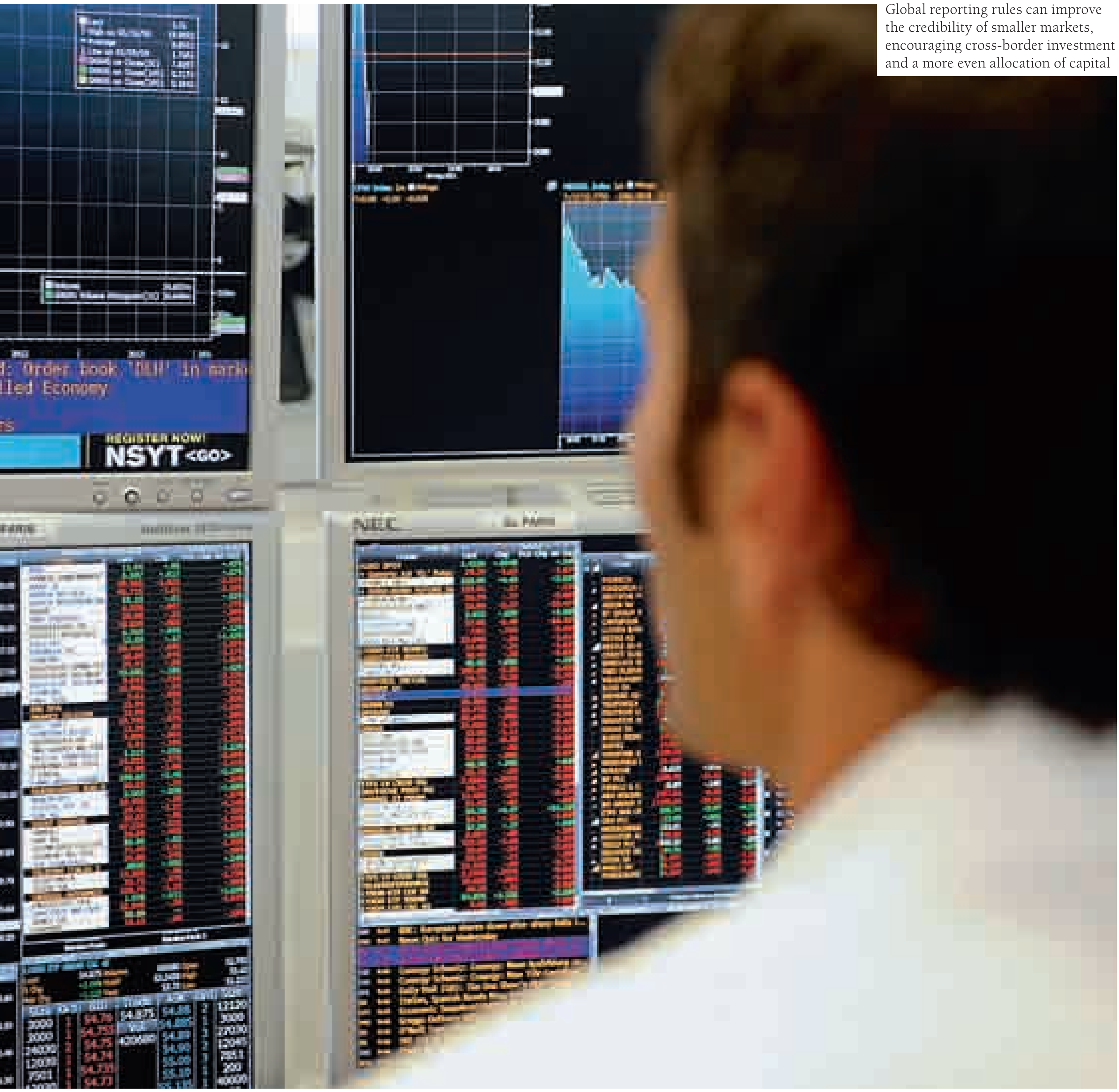
It sometimes takes a crisis to realise the need for change. The reality is that investment and business – indeed the free market as a whole – are beyond the point where multiple, national or regional accounting languages are appropriate or useful to the people that use them. The complexity of the modern market means that there is a need for a single, high-quality set of global accounting standards in order to maintain the confidence of users in the transparency and integrity of financial statements.

The need for such standards is as real for the smallest emerging economies as for the world's economic powerhouses. Application of global rules can give credibility to smaller markets, encouraging greater levels of cross-border investment and a more even allocation of capital. The establishment of global standards will enable effective comparability across political boundaries and could even facilitate greater levels of global education and training.

On the other end of the scale, companies – especially large multinationals – can reap enormous benefits from the application of global standards. They can benefit from lower costs of capital and the ability to integrate financial systems. They can greatly ease the effort of consolidating subsidiaries around the world and be able to understand better the financial statements of overseas suppliers and customers.

The International Accounting Standards Board (IASB) has already made enormous progress towards achieving this aim. In a





Global reporting rules can improve the credibility of smaller markets, encouraging cross-border investment and a more even allocation of capital

The IASB has made an enormous effort to engage with emerging markets on the issue of implementing global standards

remarkable departure from the multi-GAAP reality that existed at the time of IASB's inception in 2001, more than 100 countries now require or permit the use of international financial reporting standards (IFRSs). This list includes most of the countries belonging to the G20, which has repeatedly called for rapid moves towards global standards.

Why has IASB been so successful? First is the quality of its standards. Internationally, users recognise IFRSs as being of the highest quality. This has been backed up by volumes of academic research. IASB holds to the highest levels of organisational governance, which means that it is transparent and, most crucially, independent. This independence assures users that quality is maintained throughout the standard-setting process.

IASB's close work in recent years with the Financial Accounting Standards Board (FASB) has served to improve its standards. The US is still home to the world's largest capital market. The cooperation between the two standard setters has brought a significant reduction in differences between the two standards. This in itself has increased the level of confidence in IASB's standards and helped its cause enormously.

It is often remarked that the EU's decision to adopt IFRSs served as a catalyst for their broad adoption. This in itself is true. But, despite its obvious importance, Europe represents just one part of the story, as adoption is occurring right across the globe. IASB has undertaken enormous efforts to engage these growing markets – for example, since my appointment as chair of the IASB in June 2011, I have visited Asia five times.

More than 100 countries now require or permit the use of international financial reporting standards, including most of the G20 members

However, there is a long way to go before the work is done. Despite the progress over the past decade IASB is still some way from achieving truly global accounting standards. The obvious question is 'What next?'. The resources available to the IASB are limited, and as such it must be highly selective about what makes it onto its agenda. In 2011 it published a consultation document that set out some ideas and, more importantly, solicited public feedback on the agenda. In addition, the IASB and its staff have held numerous meetings, round-table discussions, webcasts and other outreach activities with investors and other stakeholders.

While this consultation process is still ongoing, IASB has been able to identify several key themes in the feedback it received. The most common is a call for a period of relative stability. This is no surprise – there has been an unprecedented series of changes over the past 10 years that have seen IASB's standards adopted all over the world and, in many cases, rewritten.

Although it is unlikely that a period of calm will ultimately be possible, IASB understands the underlying reasons that give its constituents good cause for requesting it, given the work and cost that go into applying new standards. That is why determining the IASB's future work programme will involve cherry-picking the most important areas where change is required. Let us fix what needs fixing, and no more.

Rigour and clarity

Many areas that IASB will look to address fall naturally out of the feedback from the consultation. There is almost universal support for completing revisions to its conceptual framework. This framework serves as a point of reference for the IASB's decision-making. It is also an important reference for companies when applying principle-based standards.

While the existing framework works reasonably well, areas such as measurement still need improvement. It is easy to understand why. After all, measurement is the most judgemental, difficult and politicised part of accounting. It is in areas such as this that IASB needs to bring more rigour and clarity. But it will be an extremely arduous task that requires much brainpower and courage.

The consultation has also identified other comprehensive income (OCI) as an area needing to be addressed. OCI is increasingly used as a home for income of a less than certain nature. It is true that income reported in OCI should come with a health warning, yet investors ignore OCI at their peril.

Providing a clearer conceptual definition of OCI will help to address the endless debates about volatility and financial reporting, as well as tackling the thorny issue of recycling. There are no easy or clear answers. But this is an area that IASB is very much looking forward to tackling.

In addition, there are a few other, less ambitious projects that IASB may well consider. These include agriculture, business combinations under common control, hyperinflation and rate-regulated industries.

The agenda is not yet finalised. We should not pre-empt the conclusions of the consultation. But it is fair to say that the direction of travel is becoming clear. ■

Tax reform for economies in transition and IBFD's approach

By Victor van Kommer, Belema Obuoforibo
and Marnix Schellekens[1]

Tax and development is a new topic on the international tax agenda. In decades past, developing countries focused on public expenditure issues rather than public revenue issues. Attention is, however, now shifting to the latter. Mobilizing and strengthening the tax and revenue side assists the recipient country in reducing its dependence on foreign aid. However, any tax reform or policy should not only serve to enhance or maintain revenues; it must also strengthen the fiscal legitimacy of the state.

Fiscal legitimacy

A sound tax system, consisting of a correctly applied sequence of building blocks that maximize value if set out in a holistic framework, is crucial to advancing fiscal legitimacy – the continuing belief the society has in the state, and therefore, in the value of paying taxes. Fiscal legitimacy is characterized by: transparency, accountability, responsibility, effectiveness and efficiency, fairness and justice of a tax system. These characteristics must be reflected in each building block, as well as the whole system, and must be considered when undertaking any tax policy or reform.

The IBFD approach

The IBFD approach is to take tax policy and tax reform, often treated separately, as two indivisible parts of one whole. We recognize that broadening the tax base is just as important as understanding the impact of globalization, the dimensions of free trade, and conventions to avoid double taxation, etc. The challenge of tax reform is to find the right balance between external demands and internal capacity.

Tax reform

A successful tax reform programme is quick, simple, popular and cheap. Speed and simplicity reduce the stress on the organization and uncertainty (of foreign investors), while popularity and low associated costs ensure the necessary support and fiscal responsibility.

Legislation

Good legislation is easy to read, easy to understand, and easy to apply by all parties involved. It should also reduce the compliance cost of taxpayers, the costs of tax administration, and must not go beyond what is necessary.

Governance

Good governance, today the centre of attention for many post-colonial states, paves the way to fiscal legitimacy by building people's faith in the state, and ensuring their acceptance of its laws and policies.

Moving legitimacy forward

States can enhance fiscal legitimacy by:

- involving independent third parties when auditing and evaluating public policies, thereby strengthening transparency and accountability
- promoting fairer and better public spending
- broadening the tax base and making tax systems fairer and more balanced, and
- reinforcing the capacity, authority and accountability of relevant executive organs

Independent actors with the necessary (financial) capacity can carry out a critical evaluation of policies and proposed reforms, and so contribute to good governance and fiscal legitimacy.

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IBFD

SPONSORED FEATURE

Standard Bank redefining financial inclusion in South Africa

Inclusive banking gives people with limited funds access to a bank account and all its benefits

Leon Barnard
Director, Inclusive Banking
Standard Bank South Africa

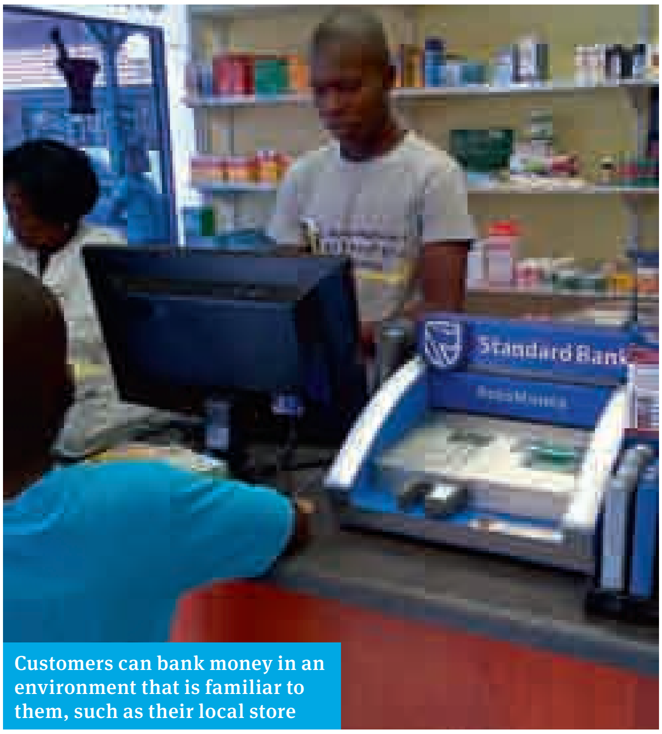
The World Bank recently released the first Global Financial Inclusion (Findex) Database Report, a comprehensive measure of financial sector indicators, tracking how adults use financial services across the world. The findings paint a global picture of financial sector access that many financial institutions are grappling with on a country level, especially in developing countries such as South Africa. It found that more than half of all adults across the world are 'unbanked'. Many of these adults reported that their main barriers to account use were high costs, physical distance, and lack of proper documentation.

In South Africa, research found that 25 million people – close to half of the country's population – earn less than R3,000 a month (approx US$388), and of these, 66 per cent remain unbanked. Reasons for this mirror the global picture: cost and access. The average customer in this segment lives 50km from a bank, and it is estimated there is close to R12 billion (approx US$1.5 billion) kept 'under mattresses' rather than in financial institutions.

The Global Findex report acknowledges that inclusive financial systems that allow broad access to financial services, removing both price and non-price barriers to use, are especially likely to benefit poor people and other disadvantaged groups.

Standard Bank Group's Inclusive Banking division is redefining inclusive banking in South Africa, creating an entire 'ecosystem' to bring banking to communities in ways that are much more relevant and accessible to the majority of people.

Standard Bank's unique presence in the many townships and informal settlements across the country bears testament. Many South Africans live a distance from urban centres, and thus rely on relatively expensive public transport to get to formal bank branches or even ATMs, adding to bank costs. Standard Bank is the first bank in the country to partner with local retailers already



Customers can bank money in an environment that is familiar to them, such as their local store

Local agents can open accounts with just a hand-held mobile device and a customer's details

operating in local townships, running small businesses known as 'spaza' shops. By walking to a local trader, customers can have access to Standard Bank 'AccessPoints' which provide Cash-ins (putting money into your account), Cash-outs (taking money out of your account), and Money transfer services. With 10,000 AccessPoints, increasing to an estimated 15,000 by the end of 2012, they have already proved to be highly successful, which is reflected in the high volume of transactions and increases in cash balances at the local retailers. Standard Bank also recruits local sales agents, or community bankers, from these areas.

Here, customers can interact with familiar community members, in their own language, and away from the often intimidating traditional banking environment.

Standard Bank's local presence was supported by the bank being first in the world on the new SAP mobile origination platform. With this technology, local sales agents are able to open accounts with just a hand-held mobile device, and a customer's

In 10 minutes, a customer can have an active bank account, with a debit card, and is registered for cellphone banking

ID and proof of residence. Such mobile origination is not only more accessible for customers, it is also 80 per cent cheaper than traditional origination. Currently, Inclusive Banking opens an estimated 120,000 new accounts a month. In 10 minutes, a customer can have an active bank account, with a debit card, and is registered for cellphone banking. Standard Bank's cellphone banking drive has been highly successful in a country where at least 83 per cent of the population are active cellphone users.

With direct banking costs also often cited as a key barrier to accessing financial services, Standard Bank added a further layer to its inclusive banking approach with the launch of its AccessAccount. The account has no monthly management fee, or minimum balance requirement, and has a highly transparent fee structure. Importantly, thanks to the overall 'ecosystem' available,

Standard Bank inclusive banking ecosystem

- First in the world on SAP mobile origination platform, enabling the opening of active accounts in communities within minutes
- More than 10,000 AccessPoints providing basic banking in townships at local retailers
- AccessAccount with no monthly fee
- Cellphone banking success
- Growing market share of 5.4 million customers who are in the income segment below R8,000 (US$1,035)

the account encourages customers to transact at AccessPoints and on their cellphones, rather than just deposit and withdraw salaries. Instead of being a generic 'low-income' account, the AccessAccount was developed to be a high-value account, providing customers in this segment with the services required, channels in which to use them, and at a cost that was affordable.

The Global Findex found that worldwide, 65 per cent of adults without an account cited lack of enough money to use one, as the most common reason for not having an account.

What is crucial is the understanding that 'costs' refers to more than just bank charges; having a formal account costs in other ways, too. Thus, access to the banking system, and access to channels that are affordable and convenient, must be the key considerations in financial inclusion initiatives.

With its growing market of more than 5.4 million customers in the lower income segment, Standard Bank has a long history of being a leading player in creating better access to financial services in South Africa, and this remains a key focus area.

Standard Bank

www.standardbank.com

Regulation of money markets is essential to prevent a crisis

Shadow banking has created havoc in China's already overheated credit market and, with underground lending rising rapidly, regulation is key to taking the heat out of the situation

By Lida Preyma, G20 Research Group

After the G20 decision to reform financial markets, the United States took the lead with the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010. The rest of the world then had a template for reforming its own market systems. Europe followed with a review of its Markets in Financial Instruments Directive (MiFID II). As both pieces of legislation harmonise regulation to avoid regulatory arbitrage, observers around the globe have been watching closely in order to formulate national policies that conform with those of the countries that house the world's two biggest financial centres. The International Organization of Securities Commissions (IOSCO) has been tasked with providing broad policy recommendations, which will trickle down to national regulation, taking into account national circumstances. These recommendations cover equities and over-the-counter derivatives and commodity derivatives, to name two. Although there has been some divergence between the US and Europe in proposed regulation, G20 leaders will call for regulators to come together to harmonise regulation to avoid arbitrage. In today's interconnected global economy, deviating out of self-interest will not help.

Since the G20 Cannes Summit in November 2011, the most controversial and divergent regulation has been the US Volcker Rule. It bans banks from proprietary trading and investing in hedge funds, private equity funds and other speculative investments that are not for the benefit of their clients. After the regulators proposed the rule, more than 17,000 comment letters were submitted. Now it is up to the regulators to consider the thousands of submissions, including some from foreign governments, and provide a rule that will accomplish what Congress intended when it passed the Dodd-Frank Act. Many have lobbied for its repeal, but only Congress can repeal a law it has passed. Regulators can only determine the definition of exemptions.

Competitive advantage

Of concern to many is the fact that under the Dodd-Frank Act, only US Treasury securities are exempt from proprietary trading at US-domiciled banks. Even a foreign bank with a subsidiary in the US will be unable to trade, for proprietary purposes, the sovereign debt of its home country. This would give the US a competitive advantage and make it harder and costlier for other sovereigns to issue debt. Canada, Japan and the United Kingdom have sent the US strong letters saying that without an extension to outside sovereigns, diminished liquidity in their securities would result – which would affect the risk-management practices of foreign firms inside the United States. When liquidity dries up, the cost of issuing debt goes up (because demand is absent), thereby making it more expensive for governments to run their countries fiscally. Investors punish sovereigns when the yields are too high by moving to other securities because they see that some governments cannot service their debt. Demand decreases further and yields continue to climb. Downgrades then ensue and the whole cycle begins to spiral.

Those letters also ask that the US, while enhancing the stability of its own financial system, should not destabilise those of other countries. The bottom line is that this is a protectionist measure by the US. The July 2012 deadline for enactment of this rule is not likely to be met, given the number of submissions and the gravity of the issue. In the meantime, banks are deleveraging and shedding entire trading desks. Many new hedge funds have formed with investor money, but managers are finding it more difficult to make money without the supporting infrastructure at the banks. New regulatory compliance has made this a more costly venture than was first imagined. This rule creates incentives for moving activity to the shadow banking sector, and firms and investors are losing money in these ventures.

With market regulation well on its way to being globally uniform across asset classes, in order to prevent a future financial crisis G20 leaders and regulators must turn their full attention to the shadow banking sector. This sector accounts for as much as 30 per cent of the global financial system and is valued at

Shadow banking is less regulated than traditional credit, so the People's Bank of China plans to legalise some aspects of this type of lending and supervise others

approximately $60 trillion. At the 2010 Seoul Summit, G20 leaders asked the Financial Stability Board (FSB) to prevent banking rules from transferring risks to the shadow banking system – which includes financial entities involved in credit intermediation outside the regulated banking sector, and can create regulatory arbitrage and systemic risk beyond the scope of that sector. At Cannes, the G20 agreed on recommendations to be developed in 2012 that strengthen regulations governing the financial relations of banks with the shadow banking system and include money-market funds, securitisation, loans and securities lending, and regulation of funds acting in the shadow banking system, such as hedge funds. As a main priority for the FSB, the goal is to build on a balanced approach between indirect regulation of shadow banking through banks and direct regulation of shadow banking activities. Investors need to keep an eye on this $60 trillion sector as a possible bubble in the making. Regulation may not come fast enough to avoid the downside risk of an opaque sector intensely intertwined with regulated entities. Shadow banking has become prominent in lending. In the US, private equity and hedge fund managers see lending as a new, unregulated line of business so that they can circumvent capital and liquidity rules. In China, shadow lending is creating havoc in the already overheated credit market. Some Chinese trust companies, which do not take deposits, package loans and provide investors with a slice of the revenue. The People's Bank of China will try to legalise part of its shadow banking credit market and supervise other parts. In March 2010 the underground market was estimated to be worth 2.4 trillion yuan ($379 billion), a figure that then grew to 10 trillion yuan ($1.58 trillion) when reserve requirements on Chinese banks were tightened that year. But the use of unregulated entities for credit was not entirely built on a lack of lending from banks. A high number of defaults in this area, where interest rates can be as steep as 100 per cent, will have ramifications for the regulated economy.

Liquidity problem

Likewise, the European Commission opened a consultation on shadow banking in March 2012 to put together regulations for 2013. The other leaders need to come together to make sure that they follow suit.

An unregulated shadow banking sector that is inextricable from the regulated banking sector (currently on shaky ground as it is) must be seriously addressed before it becomes a crisis. Otherwise, no amount of regulation will prevent that house of cards from tumbling. This needs to be done in short order as well so that action is preventive and not reactive. The problem, however, lies in the multiple regulations that are strangling the banks' ability to create revenue. Their capital requirements have continued to increase with Basel III and the addition of national buffers that are forced upon them. At the same time, these banks are deleveraging, holding more cash in reserve, buying back shares and debt, tightening credit available to businesses and households, and cutting staff in order to meet their heightened capital requirements. Each element taken separately will create a lower growth environment. Taken together they will create a real liquidity problem in the debt and equity markets, strain government spending on unemployed workers and stymie growth.

The International Monetary Fund has stated that banks will shed $2.6 trillion in assets by the end of 2013 in Europe alone. Who will buy all those assets? Regulators are creating an environment in which shadow banking can thrive – and at the same time are worried about the bubble bursting. This house of cards may have no chance against the strong regulatory headwinds that are blowing. ■

We generate social, economic and human value

We are a group of companies that seeks the generation of social, economic and human value into the lives of our clients and stakeholders. We are committed to people, transparency and the creation of development opportunities for the low income sectors. Our operation is based on large-scale, innovative and efficient models.

Social Value

- Committed to financial inclusion, we provide services to reach the most clients in the shortest time possible.
- Throughout the last 22 years we have diversified our product portfolio and today we provide more than 2.4 million clients in Mexico, Peru and Guatemala with working capital loans, life insurances, savings and a non-banking correspodents network manager. We have more than 14,000 employees.
- We have transformed ourselves in order to reach our aims in a transparent and efficient way, from an NGO in the 1990s, to a regulated financial institution – SOFOL – in 2000, and in 2006 we became a bank.
- In 2007 we had an Initial Public Offering in the Mexican Stock Exchange (BMV).
- By the end of 2010 we had founded Compartamos S.A.B., a holding company. This holding controls Compartamos Banco, the main subsidiary, the non-banking correspondent manager Yastás, the Compartamos Foundation in Mexico, Financiera CREAR in Peru and Compartamos S.A. in Guatemala.

Economic Value

- We are a solid and self-sustaining group, standing out for the generation of economic value with a long-term view, as well as for our ability to reconcile and balance growth with social and human development.
- By mid-2011, we started operations in Guatemala and acquired the 82.7% of the stock of Financiera CREAR in Peru.
- We are part of the Consumer Price Index (IPC) of the Mexican Stock Exchange and since 2010 of the MSCI (Morgan Stanley and Capital Index).
- Compartamos Banco is member of the Group of Enterprises of the Corporate Governance Latin American Round Table on behalf of the OECD and the IFC.
- We have won LatinFinance´s "The Best Microfinance Bank" award and received the Gold MFI Award by MIX Market in 2011.

Human Value

- Our leadership is based on people; this is why we support the integral development of both our employees and clients, who are the pillars of our sustainbility and the ultimate reason for generating value.
- Our code of ethics and conduct was acknowledged by The Smart Campaign as a model practice within the industry, and we have affiliated ourselves to the client protection principles proposed by this institution, among others.
- In 2011, Compartamos Banco obtained, for the second consecutive year, first place as "The Best Companies to Work for in Mexico" by the Great Place to Work® Institute Mexico.
- We provide 2% of our net income to support social corporate responsible projects, whose objectives are the family and education in communities where we operate.

The growing role of social business in development

Social business initiatives are taking off as large corporations and younger generations harness entrepreneurial spirit for the good of humanity. But legal and regulatory systems have not caught up

By Muhammad Yunus, Yunus Centre

When free market capitalism became the dominant model for the globalised world, people came to think of themselves as one-dimensional economic actors who are only out to earn as much profit as possible. And look at what it has cost. Children work in dehumanising conditions in sweatshops; cities are choked in smog; and crisis after crisis rocks the globe: food crisis, energy crisis, environmental crisis, oil crisis. We can instantly transmit messages halfway across the world, but we cannot feed all the hungry children in our communities. Because free market capitalism only offers a narrow vision of ourselves, we have sadly allowed suffering, abuse, exploitative business practices and environmental degradation to become commonplace.

Innate empathy

I came upon the idea of social business when I thought about how to reinvigorate the capitalist system with a definition that encompasses our innate empathy for our fellow human beings. Social business is a young, vibrant field that has enormous potential for meaningful impact and growth. I define social business as a non-loss, non-dividend company; non-loss and non-dividend mean that the social business only makes enough to repay its investors and/or expand. Thus, by their very nature, social businesses contribute to global development and social progress at the same time.

Social business initiatives are taking off at a steady pace as multinational corporations and dynamic young people are caught up in the promise of this exciting venture. Probably the most famous example right now of a social business is Grameen Danone, a joint venture with Danone Group that started in 2007. Grameen Danone produces and sells yogurt fortified with micronutrients to poor households in villages of Bangladesh. Apart from ensuring that rural children have access to an affordable product that helps them combat malnutrition, the Grameen Danone yogurt factory in Bogra also helps the local economy by providing steady work for cow farmers, as well as the women who go out to sell the yogurt in the countryside.

Another example is Grameen GC Eye Care Hospital. This social business charges less for poor patients than for wealthy patients, and is based on a system that delivers high quality inexpensively through high volume. The hospital also has highly trained technicians who do most of the examination and preparation work so that ophthalmologists can focus on the operations.

There are dozens of other proposals cropping up, such as those submitted by the ID Group to create two social businesses. One will be a workshop to produce functional clothing for children up to five years old in Bangladesh and to provide technical training to the rural poor and generate employment. The other social business will be a daycare centre for children. I am very excited about these and the many other social businesses that are in the works.

Obtaining financing is probably one of the biggest hurdles a social business must face on the road to launching and running successfully. To connect investors with social businesses, a social stock market is needed where only the shares of social businesses will be traded. An investor will come to this stock exchange with a clear intention of finding a social business with a mission of his or her liking. Anyone who wants to make money will go to the conventional stock market.

Unfortunately, the current legal and regulatory systems do not provide a place for social business. Whereas profit-maximising companies and traditional non-profit organisations (foundations, charities, non-governmental organisations [NGOs]) are recognised institutions covered by specific rules regarding organisational structure, governance and decision-making principles, tax treatment, information disclosure and transparency, social business is not yet a recognised business category. The sooner there is a defined legal and regulatory structure for social business, the easier it will be for entrepreneurs and corporations to create a multitude

Social business initiatives have the potential for positive effects on the lives of people in developing countries

of social businesses to tackle the human problems that plague society.

Climate strategies

Climate change affects developing countries in particular and its impacts threaten the incomes and livelihoods of millions of people. The effectiveness of social business will be diminished without a clear understanding of how poor people will deal with the risks due to climate change. Strategies need to be developed for agriculture, forestry and livestock to make poor people less vulnerable to climate stresses and shocks. Grameen is working with Crédit Agricole to develop an initiative that would provide micro-insurance to extremely poor people in disaster struck areas. The challenge lies in getting a concept of insurance that is traditionally aimed at the richer echelons of the population to be extended, applicable and feasible for extremely poor people with very low incomes.

A properly performing social stock exchange requires rating agencies, standardised terminology and definitions, impact measurement tools, reporting formats and new financial publications, such as the 'Social Wall Street Journal', and new electronic media, such as 'Social Bloomberg'. Governments must work together in creating legal frameworks for social business, which are capable of solving problems anywhere in the world.

In my decades of experience working among the poor in Bangladesh, I came to the conclusion that capitalism as it exists now cannot be effective in tackling such unresolved problems as persistent poverty, lack of access to healthcare and education, epidemic diseases and environmental destruction. This is when social business can come in and help do the work that the present version of free-market capitalism, governments, NGOs and other enterprises have yet to finish.

Social business is a dream and an action plan for a better tomorrow for all. I hope you will join me in my journey towards that future. ■

Itaú's experience with microfinance in Brazil

Recognising the need for a multifaceted approach

Brazil became the world's sixth largest economy at the end of 2011. In order to maintain its steady growth, the country needs a developed economic and financial infrastructure. Itaú Unibanco, Brazil's largest private bank and one of world's largest banks in market capitalisation, is committed to being a key player in the country's development and a leader in customer satisfaction and sustainable performance. For Itaú Unibanco, sustainable performance creates shared value to employees, customers, shareholders and society, ensuring business longevity. Microfinance is deeply rooted in the desire to promote social and economic development through a sustainable business model. Although 85 per cent of Brazilians live in cities (IBGE 2010), 40 per cent are still excluded from the banking system (IPEA 2010). Itaú Unibanco is helping to create a more inclusive financial system through Itaú Microcrédito, a microfinance operation aimed at urban microentrepreneurs. To get to know and understand the population at the bottom of the economic pyramid, the department explores the possibilities of alternative products, distribution channels and new technologies. Experiences are shared with other areas of the bank (stimulating downscaling) and with the International Finance Corporation and the Inter-American Development Bank, supporters of innovative solutions that increase access to financial services.

Informal microentrepreneurs

Brazil's legal and regulatory framework on microfinance seeks to encourage the supply of credit to individual entrepreneurs and micro-enterprises, increasing their production capacity and ability to create jobs. Estimates show there are 10.3 million informal micro-enterprises (Sebrae 2011); the informal economy represented 17 per cent of the Brazilian GDP in 2011 (FGV 2011). Informal micro-enterprises can provide work for up to five employees and are typically involved in commercial activities. Many are run by one owner, open all year round and have no accounting records.

The target market and the loan officer

Itaú Microcrédito targets formal and informal small-scale entrepreneurs in the metropolitan regions of São Paulo, Rio de Janeiro and Porto Alegre. A considerable number of informal microentrepreneurs who do not have the necessary qualities to participate in the traditional financial system, find a credit solution at Itaú Microcrédito. Itaú's approach is never single-product/single-service; loan officers evaluate the socio-environmental impact and financial literacy of potential clients and returning clients. They are responsible for disseminating practices related to the responsible use of money. Their role goes beyond client prospecting, credit analysis and overdue debt collection; they advise microentrepreneurs in their businesses, their impact in the community and their financial responsibility to the bank and to their families.

A sustainable business model

In Itaú Microcrédito's branchless business model, loan officers work in the community and rely on mobile technology to connect to headquarters in the historic centre of São Paulo. The use of mobile phones enables loan officers to concentrate on the client relationship, increasing information symmetry and reducing transaction costs. The loan officer accesses the workflow system to monitor credit approval, photographs and transmits documents to the back office team, and receives reports on portfolio quality and guidelines on how to manage the agenda. Running a paperless operation is environmentally-friendly, reduces costs and provides access to information and document security.

Another tool introduced to optimise the team's performance is the georeferencing tool, which identifies the location of microentrepreneurs free of credit restrictions. Moreover, the hybrid credit-analysis model, which combines conventional score filters with a well-rounded analysis conducted by the loan officer, stimulates a healthy portfolio growth. The score allows the credit

There are about 10.3 million informal businesses and many of these provide jobs for local people

Loan officers are not simply debt collectors, their role is to support and advise small businesses

The bank is keen to open new agencies in poorer communities, such as Complexo do Alemão

analyst to perform a simplified analysis of clients with higher scores and a more detailed evaluation of clients with a lower score. The use of mobile phones, integrated with a real time workflow system, georeferencing tool and combined scores, all contribute to the efficiency of the operation.

Itaú Microcrédito's relationship with its external and internal clients is an important part of the microentrepreneur's experience. Correspondents assume basic financial processes and help lower the transaction cost for clients. Partnerships with chain wholesale stores that supply microentrepreneurs can generate value for local businesses and the community.

Other initiatives include loan-protection microinsurance, developed in partnership with Itaú Seguros and offered at no cost to Itaú Microcrédito's clients. This also creates an opportunity to educate families about a new class of financial products. According to a study conducted by Fundação Getúlio Vargas (FGV) in 2009, approximately 100 million low-income Brazilians are potential microinsurance clients.

Supporting microfinance institutions across Brazil

In order to reach a large number of final clients and have a meaningful impact, Itaú Unibanco also supports small and large microfinance institutions offering oriented productive microcredit across Brazil. The process of channeling funding to one or multiple microfinance institutions is known as second-tier lending. Smaller public interest civil society organisations usually embrace funding and supporting technical services. Itaú Unibanco is committed to promoting microfinance best practices and trading experiences with partner organisations.

Brazil's largest private bank is committed to being a key player in the country's development and a leader in customer satisfaction and sustainable performance

A multifaceted approach

Microfinance is just one tool to alleviate poverty and promote financial inclusion. The bank is also committed to developing new products, increasing its financial literacy initiative, and opening new agencies in commonly avoided communities, such as Complexo do Alemão and Rocinha in Rio de Janeiro. The end goal is to create a virtuous cycle where the bank stimulates the social and economic development of Brazil's low-income population, which in turn demands more products and services. A coordinated and multifaceted effort has a deeper impact and does not suffer from the limitations of a one-product approach.

Itaú

www.itau.com

How microfinance can contribute to growth in developed countries, too

Small-scale lending schemes are not confined to developing countries where people may not have access to traditional sources of finance – they offer a particular relevance to post-industrial Europe

By Maria Nowak, president, Adie International

In recent years, microfinance – the lending of small amounts of money at low interest to new businesses – has achieved significant progress throughout the world, and especially in developing countries. More than 200 million people have access to it.

However, if credit is an instrument for creating wealth for the poor, just as for all other economic actors, it is also a debt they are not always able to repay. Thus, microcredit must find a way to balance its social mission with the need to cover its costs and protect its clients. Without this balance, either it comes close to usury, it cannot be sustained or it leads the borrowers to over-indebtedness.

If practised according to the rules, it certainly does not resolve all the problems of development, but it is a powerful instrument enabling the poor to gain control of their future, find their place in society and participate in economic growth.

Expansion in Europe

For more than 20 years, microfinance has also been developed in rich countries, and particularly those in Europe. Its expansion on a continent marked by the industrial revolution, wage-paid labour and the welfare state shows clearly that microcredit responds to the universal nature of entrepreneurship, which depends neither on the level of wealth nor on the level of education.

It is favoured by the structure of the European economy, in which 92 per cent of enterprises have fewer than 10 employees; where 80 million people live below the poverty line; and by the informal sector that – even if it is not talked about – is valued at between 10 per cent and 15 per cent of gross domestic product.

The development of microfinance is propelled by longer-term trends, namely de-industrialisation, the increased role of services, an ageing population and the necessity to reform social welfare systems. The new technologies that have contributed significantly to the globalisation of the economy are also contributing to local development. These trends favour the creation of small service units, sometimes linked in networks. Microcredit, initially assigned to emerging countries whose economies have a preponderance of self-employment, is thus also becoming the financial instrument of post-industrial economies.

International aid need not be confined to a single direction. In this case, technology transfer is going from the South to the North. Microcredit can provide immediate support

Beginning with operations carried out in Eastern Europe under the aegis of international donors, and in Western Europe via private initiatives such as that of Adie in France, microfinance – ignored by the political decision-makers – initially had to demonstrate its effectiveness on the ground.

This has proceeded faster in Eastern Europe on account of its political and economic transition and access to the resources of international aid. The change of mindset has been harder to promote in western Europe, where both governments and public opinion have been more attached to the status quo. The financial and economic crisis has accelerated the process.

Different countries, especially France, Romania and Italy, have modified microcredit's regulatory framework. Others, such as Germany, have created microcredit facilities supported by the state without touching the banks' monopoly. The European Commission, after publishing the *European Initiative for the Development of Micro-credit in Support of Growth and Employment* in 2007, established a facility for financing microfinance institutions, as well as a technical assistance facility.

G20 focus on developing countries

These efforts have not been supported on an international level by the G20 Global Partnership for Financial Inclusion (GPFI) and its partners: the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC), whose activities are limited to developing countries.

However, even if poverty does not have the same dimension and depth in rich countries as in the developing world, financial and social exclusion can have equally dramatic consequences.

Europe has much to learn from some emerging countries that have integrated microfinance into their economic and financial policies. The following two cases exemplify this.

Brazil has decided to allocate two per cent of its saving deposits to microcredit; it has created credit bureaux, developed financial education and created a network of non-bank windows that are authorised to provide financial services to the general population.

In the framework of the Arab Spring, Tunisia has included microcredit among 17 priority measures and has published a law providing the possibility of creating microcredit companies and associations. It has established, in a coherent manner, the entire institutional environment necessary for the sector's development.

Taking inspiration from these cases, the G20 at Los Cabos should go further in recognising microfinance. International aid need not be confined to a single direction. In this particular case, technology transfer is going from the South to the North.

Entrepreneurs in the developing world, such as this slum dweller in India, have taken advantage of microfinance schemes to establish their own businesses

Microcredit can provide immediate support to employment in European countries in crisis. It could play a role in Greece of equal importance to that it played in Bosnia at the time of the Dayton Agreements. To that end, it would be useful to open the expert and support networks to all countries in a spirit of globalisation. It would be necessary for central banks to incorporate growth and employment in their objectives, as is already the case with the US Federal Reserve.

Banking laws should allow the parallel creation of microfinance institutions, subject to the approval and supervision by the financial authorities, but enjoying more flexible regulation, adapted to their type of activity and risk. This regulation should not exclude the collection of savings. Self-employment should be regarded in the same way as wage-paid labour, with the legal framework adapted to cater for its particular characteristics.

Microfinance is becoming a common cause for all: a cause of growth, since there is no creation of wealth without access to capital; a cause of social cohesion, because it leads to greater equality of opportunity; and a cause of democracy, which is not confined to electing political representatives but is found in the ability of everyone to determine their destiny.

Microfinance is the virtuous form of shadow banking. It deserves to be liberated from the shadow and globalised. ■

The BBVA Microfinance Foundation: Productive Finances for poor people

Manuel Méndez del Río Piovich, Chairman and President, BBVA Microfinance Foundation

Today, 72 per cent of the adult population in developing countries – about 2.7 billion people, of which 250 million are Latin Americans – have no access to financial services. Microfinance started as the result of such a huge and unsatisfied demand from those financially excluded. However, after more than 30 years of activity and in spite of individual success achieved by many entities, the impact of microfinance on a global scale can hardly be considered remarkable, when 95 per cent of the referred population is still excluded from financial services.

No doubt, financial democratization has not spread in an effective way, since millions of poor people are still excluded from the financial system, hindering their social inclusion. With the aim of fighting the financial exclusion that large parts of the population face, BBVA launched its Microfinance Foundation, bringing an innovative approach to the existing microfinance status quo and addressing the needs of the poor on a sustainable basis.

Innovative, because BBVA, one of the largest international commercial banks – among the world's top five in profit terms – centred its microfinance involvement as a result of its Corporate Social Responsibility, focused on financial inclusion.

BBVA disbursed initially $300 million into its Foundation and made available the know-how of an institution with 150 years of banking experience for the purpose of serving the most underprivileged people, in a completely philanthropic manner.

Started in 2007, the BBVA Microfinance Foundation is a non-profit entity that has the objective of promoting the economic and social development of the most disadvantaged persons within society, through Productive Finances.

It does so by applying a unique and distinctive model, known for its professional business approach based on efficient and expert management. The model has two strategic pillars – on one hand, the creation of a group of sustainable microfinance entities in Latin America, specialising in Productive Finances; and, on the other, the development of initiatives to contribute to transforming the microfinance sector. Whereas the initial challenge the industry faced was to prove that the poor were bankable, the challenge of today's Foundation vision is to push further down the poverty ladder with a set of sustainable financial services (savings, insurance and loans) that meet the livelihood needs of the poor. In the Foundation's view, to fulfil this challenge an industry-wide shift is required, from a product to a market orientation, with financial services designed to support the real economic activity of the poorest and delivering the full range in a sustainable manner.

1. Consolidation of a Microfinance Entities Group

The BBVA Microfinance Foundation is developing and consolidating a group of sustainable microfinance regulated entities in Latin America, in which it is the majority shareholder and takes care of their management.

Productive Finances are the core of its operations, where financial products and services are provided to support the client's economic activity, pursuing a sustainable economic and social development. The final objective of this model is that clients become successful, which is pursued not only through financial services, but also through a comprehensive and continuous support, with training and advice, thus developing their business abilities and financial culture.

The Foundation provides to its entities, which retain their own differentiated local identity, a common culture, as well as common corporate governance systems, ethical guidelines, a pioneering technological platform, management and advanced risk models, and the experience shared by the different countries.

Overall, in the Foundation's view, economies of scale and scope are required to both facilitate the economic and social development of the poor, and to do it with financial and institutional sustainability.

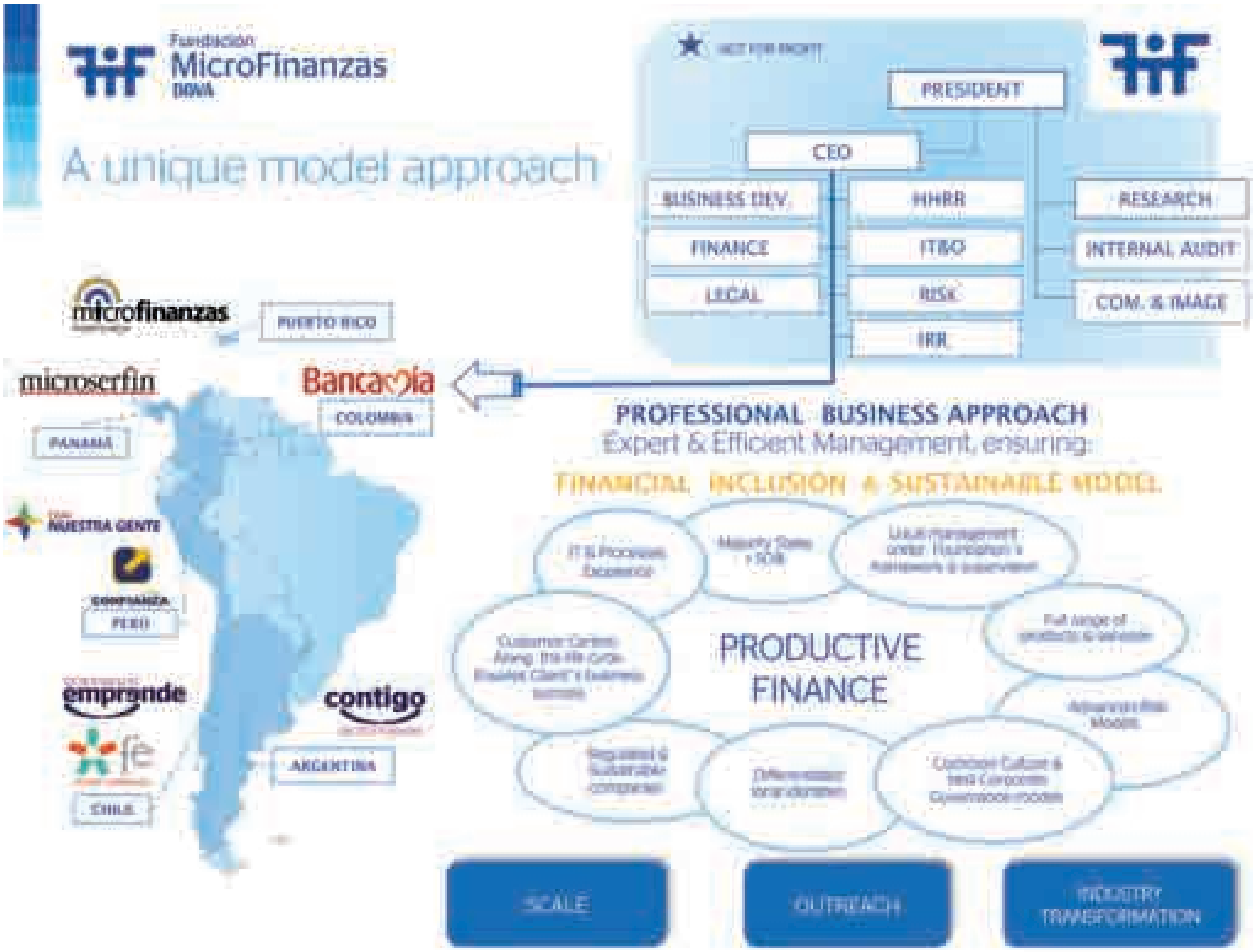
Since its official launch five years ago, at an event attended by HM Queen Sofia, the Foundation has established Banco de las Microfinanzas-Bancamía in Colombia; Caja de Ahorro y Crédito Nuestra Gente and Financiera Confianza in Peru; Microfinanzas PR in Puerto Rico; Emprende Microfinanzas and Fondo Esperanza in Chile; Contigo Microfinanzas in Argentina; and Microserfin in Panama.

By means of its operational entities, the BBVA Microfinance Foundation is currently servicing a base of one million clients in Latin America, with an estimated social impact on the lives of more than four million people. The Foundation has more than 5,000 employees, a network of 359 branches and has accumulated lending of $3.3 billion in credits (at an average of $1,350) since it was created in 2007.

Under its current phase of development, the Foundation is working towards consolidating its position in the region, and is moving its operations to Central American and the Caribbean markets.

The Foundation has established core strategic and operational alliances with other institutions that share its view and mission. This is the case of International Finance Corporation (IFC), a World Bank entity, for the purpose of co-investing in its microfinance entities and contributing to strengthen its growth in the area. Up to this day, IFC has invested in the largest of the Foundation's operations, Caja Nuestra Gente in Peru and Bancamía in Colombia.

Similarly, it is noteworthy the alliance signed by the Foundation and Banco de Desarrollo Económico para Puerto Rico (BDE), as well as, among others, the public-private alliance signed by the Foundation and the Micro, Small and Medium



The Foundation serves one million clients in Latin America, has more than 5,000 employees, 359 branches and accumulated lending of $3.3 billion since 2007

Business Authority of Panama (Autoridad de la Micro, Pequeña y Mediana Empresa de Panamá, AMPYME), for the joint management of microfinance in this country.

2. Development of the Microfinance Sector

Apart from consolidating its group of microfinance sustainable entities in Latin America, the BBVA Microfinance Foundation, in a purely philanthropic manner, develops a growing number of initiatives to help in improving the microfinance sector and to address specific obstacles that undermine its necessary growth and expansion of capacity.

Among these, there is the need to strengthen Corporate Good Governance within microfinance entities, and to improve the training of human capital. In response to these, the Foundation has written a “Universal Corporate Governance Code for Microfinance Entities”, a reference document for the sector, containing the principles and rules that any microfinance entity good-governance code should include, in accordance with the standards and good practices accepted internationally.

Additionally, and in order to get the above assumed and put into practice, the Foundation has prepared a “Guide for the Adoption of Good Governance Principles in Microfinance Institutions”, and also organises “Good Governance Training Workshops” for microfinance entities board members.

At the same time, and concerning human capital, the Foundation develops “Training Programs for Microfinance Expert Executives” in several Latin American countries, along with Banco Interamericano de Desarrollo (BID), the Spanish Distance Learning Education University (UNED) and prestigious local universities, such as Universidad del Pacífico in Peru, Universidad Javeriana in Colombia, Universidad del Congreso in Argentina, Universidad Latina in Panama, and Instituto de Estudios Bancarios in Chile. Equally, it has a strategic agreement with Instituto Tecnológico de Monterrey in Mexico for the development of training activities.

In conclusion, the BBVA Microfinance Foundation works to consolidate its group of microfinance entities, while at the same time leading several initiatives to help transform the sector so that it can dramatically enlarge its current scope and growth rate. All of this is conceived in order to produce a real and global impact, and to be able to attend, in a growing manner, to people who are excluded.

Fundación MicroFinanzas BBVA

www.mfbbva.org

Safe and fair financial services – enhancing consumer protection

Consumers worldwide, through no fault of their own, have been hard hit by the lack of regulation that resulted in the banking crisis. There is much that can be done to prevent it happening again

By Justin Macmullan, head of advocacy, Consumers International, and Adriana Labardini, director, Alconsumidor

The financial crisis was, without a doubt, a defining moment for the G20. However, in the immediate aftermath, it was the safety and soundness of the financial system that dominated G20 debates. In contrast, little attention was paid to the role of weak consumer protection in sparking the crisis or what sort of services the financial sector should provide in the future.

Consumer organisations had been questioning the state of financial consumer protection for many years. The financial crisis changed the nature of the debate by dramatically highlighting the fact that consumers are not just another link in the chain, but are essential players in the market. It is only with safe and fair products and services that their needs and the needs of the wider economy could be met.

In the wake of the crisis, Consumers International (CI), the independent international federation of consumer organisations with more than 220 members in 115 countries, asked what changes consumers could expect in return for the enormous sums being spent on the bail-outs.

A consumer campaign

This question led CI to launch a campaign in 2010 calling for international action to support consumers' access to safe, fair and competitive markets in financial services. It was a campaign for everyone, everywhere, whether their financial system had been rescued or not. On this issue, consumers in both developing and developed countries shared many of the same concerns.

The campaign bore quick results. At the 2010 Seoul Summit, G20 leaders requested the Financial Stability Board (FSB) to report back to the next summit on "options to advance consumer finance protection". This was followed by a request from the G20 finance ministers for the Organisation for Economic Co-operation and Development (OECD) to develop common principles on consumer protection in financial services.

Top of the 'to-do list' should be ensuring the basic safety of financial products, addressing unnecessary complexity, and providing clear information and independent advice

CI welcomed these developments. As an input into the process, it developed its own comprehensive recommendations to the G20 on financial consumer protection.

A key theme was that governments had traditionally relied far too heavily on consumer education. Much more attention should be given to establishing effective regulators with the mandate, powers and resources to protect consumers.

Top of the 'to-do list' for such a regulator should be ensuring the basic safety of financial products, addressing unnecessary complexity, and providing clear and accessible information and independent advice free from conflicts of interest. In addition, there must be effective complaint and redress systems. These steps are just as important in relation to financial inclusion and new consumers of financial services, where innovations in mobile banking and e-payments are making great strides but may require particular attention from regulators.

The promotion of greater competition is also key in many markets, not least following the consolidation that occurred in some countries following the financial crisis. This is not just a case of promoting easier 'switching' between bank accounts but also of separating the retail and investment arms of banks so that it is possible for a bank to fail without having a catastrophic impact on consumers.

Proposed international organisation

Finally, CI called for the establishment of an effective international organisation to support the continued development of financial consumer protection in relation to banking and credit.

CI welcomed the efforts of the French presidency (and, in particular, Christine Lagarde, at the time France's finance minister) in 2011 and the FSB and OECD to consult with consumer organisations. However, the transparency and accountability of the process were significantly undermined by the fact that the names of the national members of the FSB board and the OECD taskforce were kept confidential. This frustrated the ability of consumer organisations to discuss the development of the work with their national representatives.

In late 2011 the FSB and the OECD released the results of their work. The FSB report on *Consumer Finance Protection with a Particular Focus on Credit* made three recommendations based on a survey of its membership. These were to call upon an international organisation of regulators to take the lead on global financial consumer protection efforts; launch work on institutional arrangements and, if appropriate, develop best practices to guide institutional reform; and strengthen supervisory tools by identifying gaps and weaknesses.

November 2011 also marked the release of the OECD *High-Level Principles for Financial Consumer Protection*. The 10 principles largely covered the areas highlighted in CI's recommendations. However, there was some disappointment at the lack of detail and weak language used. It was hoped this

In the US, the banking crisis and subsequent economic downturn have led to many foreclosures on homes as families cannot repay their mortgages

would be addressed through the development of guidelines to support implementation. The G20 Cannes declaration endorsed both the FSB report and the OECD principles. It included a commitment to "pursue the full application of these principles" and a request for "the FSB and OECD along with other relevant bodies" to "report on progress on their implementation" and "develop further guidelines if appropriate".

Next steps to foster protection

CI welcomes the support that the Mexican presidency has given to formalising FinCoNet, a loose network of financial consumer-protection bodies identified by CI and then by the FSB as needing to become an effective international body to support financial consumer protection in relation to banking and credit.

It is critically important that governments ensure FinCoNet has sufficient resources to fulfil its mandate, a work plan that reflects consumers' needs and mechanisms to ensure consumer organisations can meaningfully participate in its deliberations.

CI will also continue to work with the OECD to support the implementation of the high-level principles for financial consumer protection as requested by the G20 leaders at Cannes. In particular, it will work with its members in three key areas.

First, CI will call for the development of effective guidelines for implementing the principles. This includes ensuring that the guidelines are not downgraded to simple 'approaches' that might appear to provide a diminished level of instruction. Rather, they must provide enough clarity and detail to define the actions required to raise standards in financial consumer protection.

Second, CI will request clarity on when the implementation reviews mentioned in the Cannes declaration will take place. CI views these reviews as an important part of the process that would ensure that it was not just a 'paper exercise', but one that would have a real impact. CI expects the reviews to start at the latest shortly after the G20 summit takes place in Russia in 2013.

Finally, CI will continue to push for a transparent and accountable process.

It is important that consumer organisations and other members of civil society have access to their national representatives on the OECD taskforce and on any other institution that is involved in the development of work on consumer protection.

Promoting growth and preventing a future crisis require governments to ensure that financial services become a safe and fair means to save, borrow, invest and perform the basic financial transactions that individuals need in order to function in an economy.

It is tragic that it took a financial crisis, and the resulting hardship, to open governments' eyes to the dangers of unregulated financial markets. The least that we can do now is learn the lessons from that tragedy and set a better course for the future. ■

Mibanco: a commitment to long-term development

People and society, inclusion as a means of preventing financial exclusion, and transparency – these are only a few of the concepts forming the perspective on development at Mibanco, the bank of the Peruvian Microenterprise

By Carolina Benavides, social assets manager, and Gabriela Kleeberg, journalist

In our country, the roles and responsibilities of banking in society clearly coincide, translating principally into the benefits of financial inclusion, which is fundamental to the country's macroeconomic development. Not only does it foster the formalisation of businesses and facilitate the realisation of safe transactions and investments, but it is also a means for forging the future of Peru's citizens.

Unlike traditional financial entities, Mibanco, which is today the fifth largest bank in Peru, concentrates its daily activities on the fulfilment of its mission, which is to provide opportunities for progress and access to the financial system with a social commitment.

In 1998, when Mibanco was established in Peru, formal microfinance was unknown to the majority of the population. Mibanco offered micro and small business owners, for the first time, access to the state-regulated financial system.

However, Mibanco's history dates back more than 40 years to when a group of entrepreneurs formed Acción Comunitaria del Perú (ACP), a non-profit organisation dedicated to placing micro credits among the most excluded socioeconomic sector. Today, ACP is the bank's majority shareholder and headquarters (Grupo ACP), which also brings together other businesses oriented towards offering business solutions to the same sector.

Both Mibanco and Grupo ACP have profound knowledge of the profile and needs of the group they seek to serve – the base of the pyramid, comprised mainly of migrants from rural zones to cities, in which the norm is women being in charge of daily family life. They are people who, from birth, have had to confront a series of difficulties and injustices – a result of the persistent social and economic divisions in our country. However, despite the scars of poverty, micro entrepreneurs do not give up easily and are eager to improve their living conditions.

At Mibanco, we have confirmed that access to credit is an opportunity to propel the sustainable development of our clients, but it must be accompanied by non-financial services to educate clients about the sustainable administration of their businesses. For this, training programmes such as 'Strengthening Women's Entrepreneurship in Peru', 'Microenterprise Diploma', and 'Myconsultant' – are fundamental parts of the bank's management.

For Mibanco, it is crucial that our clients have the option to experience something truly different

While the aforementioned programmes seek to transmit objective knowledge, such as financial and administrative tools required for adequate business management, they are also spaces that offer other opportunities. For Mibanco, it is crucial that our clients at large – and women in particular, due to the fact that they tend to act as both mother and father – have the option to experience something truly different.

In this way, our training programmes address concepts related to social responsibility and solidarity. For example, in the case of the programme 'Strengthening Women´s Entrepreneurship in Peru', interactive activities and games enable women to see that economic success has a real, superior meaning if it is reached by

Mibanco facts and figures

Shareholders:
- Grupo ACP Inversiones y Desarrollo (60.30%)
- AccionInvestments in Microfinance (9.36%)
- International FinanceCorporation (6.50%)
- Accion International (6.33%)
- StichtingHivos – TriodosFonds (5.44%)
- StitchingTriodos – Doen (5.44%)
- Corporación Financiera de Inversiones (1.75%)
- Ducktown Holdings S.A. (1.40%).
- La Positiva Seguros y Reaseguros S.A. (1.36%)
- Triodos Fair Share Fund (FondoMutuo) (0.91%)
- La Positiva Vida Seguros y Reaseguros S.A. (0.35%)
- Transacciones Financieras S.A. (0.19%)
- Transacciones Especiales S.A. (0.13%)
- Otros Inversionistas (0.54%).

Mibanco in numbers (Annual Report 2011)
- US$1.929.4 million in total assets
- 668 thousand clients
- $1 million in training programmes for clients

Ratings obtained
- Planet Rating: 4+
- Global Reporting Initiative: A
- Global Compact: Avanzado (advanced)

Case studies

Yrma and Bernardino Meneses, clay crafts

Yrma and Bernardino have been Mibanco clients for two years. They live in Arequipa and their business consists of producing clay handicrafts, from traditional Peruvian cribs to decorative and kitchen items.

Initially, their house was made of ashlar and mats, materials that could not resist the rain. Also, in the same space, they had their workstation.

Today Yrma and Bernardino´s house is made of bricks and cement. Their working space is larger and outside their house – but on the same land. In March 2012, Bernardino plans to attend a crafts fair in Cordova, Argentina. It will be the first time he has left his birthplace, Arequipa.

Efraín Díaz, alpaca clothing manufacturer

Efraín Díaz manufactures clothing and alpaca-fibre* fabrics. When he started as a client at Mibanco, his children were finishing high school. His one-storey house was used both as their home and as his workstation. He had only two threading machines, but he had clear ideas.

Today, Efraín has been able to expand his house, b uy more equipment and continue to invest in the wellbeing of his family. Now his house has two floors, so he distributes the space better. The workstation is much bigger and is located only on the first floor, where he has 10 threading and sewing machines for the full clothes-manufacturing process. His children are going to university.

**The alpaca is an animal – camelid – that lives in the Peruvian Andes. Its wool, besides being used as a main source of shelter in the mountains, is considered a high-quality product for warm clothing worldwide.*

working (playing) creatively with the partners they are paired with (sisters), while being supported by respectful, empathetic trainers (parents) – conditions under which they can build a different, more positive, universe together.

The Miconsultor training programme is carried out with this same logic of solidarity and responsibility. Volunteers in their last years of university at national and foreign private institutions transmit part of their knowledge to the bank's clients, and meanwhile they benefit from the experience in the field. This interaction is mutually enriching: students learn about the diverse realities in the national territory, and at the same time they have the opportunity to apply their knowledge in practical situations; the clients strengthen their businesses and establish concrete plans for the future. In this way, we make real connections, reduce social divisions, and work in a sustainable way towards a common goal.

Other than an unmistakable commitment to its clients, Mibanco expressly adheres to global efforts such as the United Nations Global Compact and the Global Reporting Initiative. With the first, the bank commits to promote a respect for human rights among its interest groups and to contribute to a fairer, more equal, and more inclusive society. The second establishes the guidelines for transparent communication of the institution's economic, environmental, and social performance.

Finally, regarding Mibanco's relationship with the environment, we have an internal programme for controlling the consumption of natural resources, and we apply norms and policies when awarding credits that restrict them to environmentally friendly activities that do not threaten labour rights. These activities are subject to systematic follow-up, accompanied by constant awareness-promotion activities for personnel.

Clearly, for Mibanco, it is not just about social, environmental and economic responsibility. Our commitment focuses on the progress of our clients, of our institution, and of our extended community. This is the permanent challenge when facing any national or international economic scenario.