

# **"Regional Workshop on best practices in the implementation of accounting standards and insurance regulation for the financial inclusion of Micro, Small and Medium-sized Enterprises in Latin America and the Caribbean"**

*Medellin, Colombia, 28 - 29 November 2016*

## **Conclusions**

The Regional Workshop on Best Practices in the Implementation of Accounting Standards and Insurance Regulation for the Financial Inclusion of Micro, Small and Medium-sized Enterprises (MSMEs) was held in Medellin, Colombia, from the 28th–29th November 2016. The event brought together over 30 representatives from Ecuador, Dominican Republic, El Salvador, Peru, Brazil, Argentina and Colombia, including senior government officials, heads of entities responsible for accounting and insurance oversight and regulation, representatives of international standardization organizations, representatives from academia and the private sector, and multilateral organizations working in the area of financial inclusion. This initiative was convened by the United Nations Conference on Trade and Development (UNCTAD) in close collaboration with Eafit University and was also supported by key regional players, such as the Latin American Association of Insurance Supervisors (Assal), the Latin American Group of Accounting Standard Setters (Glenif), the Impact Insurance Facility of the International Labour Organization, and the Global Microscope for Financial Inclusion of the Inter-American Development Bank. The list of participants is in Annex I.

Throughout the sessions, participants highlighted the progress and good practices in some countries in Latin America and the Caribbean in the promotion of MSMEs, with a focus on financial inclusion. The meeting facilitated the exchange of experiences and challenges in this area; highlighted initiatives aimed at supporting MSMEs, including those involving vulnerable groups, such as women entrepreneurs, farmers as well as business owners affected by natural disasters. During the discussions, policy makers also discussed the main issues in the area of accounting and insurance for MSMEs in their jurisdictions.

The event started with a joint opening session, followed by two parallel working sessions on accounting and insurance for MSMEs - two key topics for financial inclusion and facilitation of MSMEs' access to finance and insurance. The meeting concluded with a joint closing session, during which participants reported on the parallel sessions and discussed the way forward. The highlights of each session are presented as follows:

### **Opening session**

The event was opened by Mr. Gerardo Hernandez, Financial Superintendent of Colombia and Member of the Board of Directors of the Latin American Association of Insurance Regulators (Assal). Mr. Hernandez began the meeting by highlighting the interaction between transparency, financial inclusion and stability at the country level. Mr. Hernandez provided an in-depth overview of the current insurance coverage in the region and went further to discuss both the challenges and the opportunities arising from the "*fintech*" (financial technology) revolution and the resulting necessary regulatory reforms to create an enabling environment for financial inclusion. Finally, Mr. Hernandez discussed the importance of consumer awareness on both the opportunities and liabilities derived from increased access to finance.

Speaking on behalf of the Latin American Group of Accounting Standard Setters (Glenif), Mr. Angel Salazar highlighted the importance of regional cooperation to represent the voices of

all countries in the region with regard to issues of lack of technical expertise that affect the financial inclusion of MSMEs. As an example, Mr. Salazar highlighted the contribution of Glenif to development of International Financial Reporting Standards (IFRS) for SMEs, particularly on the topic of valuation of fixed assets. Mr. Salazar ended his intervention by highlighting the challenges to make accounting work for MSMEs' development, which includes widening stakeholder engagement both at national and regional levels, as well as promoting participatory dialogue.

Mr. Amaro Luiz de Oliveira, Member of the International Accounting Standards Board (IASB) for Latin America, provided the background to the conception and development of IFRS for SMEs, and highlighted the role of UNCTAD/ISAR in that process. Mr. Amaro emphasized that IFRS for SMEs are a valuable reporting framework for smaller entities, more responsive to the size and ownership of their operations, and should help improve their access to finance. Mr. Amaro closed his presentation by acknowledging the challenges of jurisdictions in implementing the IFRS for SMEs and provided insight into the tools developed by the IASB and its partners in response to those challenges.

The opening session concluded with the presentation of Mr. Carlos Moya, Regional Representative of the Alliance for Financial Inclusion (AFI), who shared AFI's experience in expanding financial inclusion globally, working with 117 institutions in 94 countries. Mr. Moya highlighted AFI's areas of interest through six working groups, one of which is dedicated to the topic of SME finance. Furthermore, Mr. Moya, highlighted that AFI has facilitated and produced over 12 policy changes in the area of financial inclusion for MSMEs, which constitute evidence-based data that policymakers and regulators can use to set quantified targets and to inform policy making. Finally, Mr. Moya provided an overview of the priorities for the next years in the Latin American Region, which are digital financial services, further research and data collection on financial inclusion and the National Strategies of Financial Inclusion at a country level. He further outlined how the financial inclusion community is working with Standard Setting Bodies to ensure implementation of relevant regulations.

## Parallel sessions

### **The role of financial information of MSMEs in improving their access to finance**

In the parallel session on accounting for MSMEs, participants concluded that there remain major challenges in the implementation of related accounting standards throughout the region. In particular, participants discussed that IFRS for SMEs are highly complex for microenterprises, which in some countries account for up to 80% of formal enterprises. In order to adopt best practices to improve quality of accounting and reporting to facilitate access to finance for MSMEs, the participants agreed:

- *To mobilize participation of organizations* at the national and regional levels that can facilitate cooperation on the implementation of IFRS for SMEs and other simplified guidelines: standard-setting bodies, regulatory bodies, the accountancy profession, bank associations; MSMEs, government agencies in support of MSMEs, and regulators of the financial system.
- *To identify and implement tools for capacity-building*: to invite other stakeholders at the national level to join efforts to implement UNCTAD's Accounting Development Tool (ADT), in light of its value as a diagnostic instrument and driver of change, including in the MSME accounting area. At the national and regional levels, there is a need to develop action plans to train practitioners and professional accountants and to involve academia in the adequate training of qualified accountants who would be knowledgeable of international standards and requirements, to also ensure the improvement of trainers and teachers' capacity,

which is needed to lead these training processes. Finally, the need to promote financial literacy and awareness raising processes for micro-entrepreneurs and SME entrepreneurs was identified, given the usefulness of reliable accounting information as a tool for accessing credit.

- *To develop the regulatory capacity:* Notwithstanding the importance of accounting in all types of companies, it is important to keep a realistic view of the type of accounting information needed by and from each type of company (in terms of size) in order to avoid excessive compliance costs that discourage the micro and small entrepreneurial activity. For example, guidance should be developed on a minimal requirement for micro enterprises for formalization purposes. In this regard, less complex accounting guidelines, such as UNCTAD's Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises (SMEGA 3), tailored to micro-enterprises, could prove beneficial and useful for all actors (regulators, businessmen, professionals and accounting technicians). Finally, in order to achieve concrete results, guidance is required for the regional harmonization of accounting standards for microenterprises, moving from accounting regulations based on *the characteristics of companies to accounting guidelines based on the needs of the users of the financial reports*.

### ***Insurance regulation to improve access to MSMEs***

During the parallel session on the development of strategies, policies and regulatory framework of the SME insurance market, participants expressed that, although there is a very low coverage in this segment and therefore a great market opportunity, two large gaps remain. The first is related to the need to develop simplified products tailored to the needs of SMEs, and the second regards the creation of a culture of risk prevention. Participants agreed on the following recommendations and avenues of collaboration:

- Encourage Government practices that recognize insurance as an element favourable to the mitigation of risk, in order to minimize macroeconomic costs and to solve the vulnerabilities at the micro level. Additionally, it is necessary to consider that, in order to consolidate the inclusion of financial services; it is pertinent to promote inclusive insurance services.
- Financial education and awareness of the insurance culture can be seen as an important way to integrate the SMEs into the insurance schemes on a suitable basis, and help the individuals to understand their rights and enable them to demand their protection. The encroachment of the insurance culture at the level of the productive units (MSMEs and other small entities) is essential to reduce the vulnerabilities of these organizations. The occurrence of losses that affect the productive development of these units can have magnitude effects on business continuity. It is therefore relevant for these organizations to consider insurance as part of their sustainability strategy, developing in turn a "confidence factor" that must be cultivated among all participants in the insurance market, including insurance companies, intermediaries and insurance users. The process of financial education in the countries should consider the successful experiences with the greatest impact, seeking an adequate segmentation of the target population and the choice of the most effective diffusion channels.
- Develop institutional capacities at the country level to carry out regulatory changes in the insurance sector, in order to improve access for MSMEs to affordable insurance services. To this end, it is necessary to develop and disseminate case studies of success, showing from a supply and demand perspective the positive impact of designing products that are appropriate to the needs of the insured

MSMEs (size, channels, coverage), with a focus on the advantages they represent to users on loss mitigation.

- In addition, the following aspects are to be considered:
  - Policies regarding marketing and distribution channels, about contract formalities (use of electronic channels), settlement of timely claims; forms of expedited claims. The aforementioned elements should be part of a "responsible sale" strategy in which customer needs are met efficiently and at the lowest cost.

Regulations should observe that new forms of insurance distribution consider a number of operational risks and technological requirements that must be adequately covered by insurers. Likewise, regulations should be aimed at improving the quality of information: the databases of insurance contracts must allow the characteristics of the consumer to be known, in order to establish a statistical base that allows differentiation between corporate, medium-sized, small businesses, micro-enterprises, or individuals.
  - The characterization of products must be coupled with the needs of users, and especially SMEs. It is important to ensure that, according to good practices of insurance companies, a product strategy is established for SMEs considering potential reinsurance to mitigate risk.

### **Final Remarks**

In general, it was concluded that, although there has been significant progress in promoting MSMEs, specifically in terms of their access to financial services, there remains a significant gap. The participants agreed that this situation is partly explained by the lack of products tailored to MSMEs, and the lack of entrepreneurs' financial education.

Participants requested UNCTAD to facilitate the follow-up on the meetings' recommendations and, to that end, specific UNCTAD's tools were highlighted, such as the ADT, SMEGA 3, and the discussion paper *Facilitating Access to Affordable Insurance Products for SMEs*. Participants acknowledged that the above-mentioned materials would enable countries to assess their capacity development needs, set priorities and define concrete action plans.

During the closing session, the importance of bringing the present conclusions to the agenda of regional organizations, such as Assal and, Glenif, was highlighted, as well as the related efforts of existing initiatives in this area (Financial Inclusion Alliance -AFI-, Impact-Insurance Facility, Global Microscope for Financial Inclusion). The participants expressed their appreciation for the open and constructive dialogue, which facilitated the exchange of experiences and lessons learned while providing a valuable platform for discussing future actions. The meeting highlighted the importance of regional collaboration to prioritize the agenda of financial inclusion of MSMEs. Participants requested UNCTAD to continue facilitating this type of exchange of experiences to facilitate the process of MSMEs' financial inclusion, the financial literacy of owners and managers of these companies, their access to finance and affordable insurance services, and capacity building in the area of accounting and insurance for MSMEs.

## Annex I: Participant List

Country	Last Name	First Name	Organization	Job title
Argentina	Casinelli	Hernan	Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires	Consejero Directivo
Colombia	Sanchez	Leonardo	Universidad EAFIT	Jefe Departamento y Carrera de Contaduría Pública
Colombia	Herrera	Carolina	Universidad EAFIT	Asistente de proyectos- Escuela de Administración
Colombia	Duenas Gil	Nelson	Pontificia Universidad Javeriana / UNCTAD	Consultant / Professor
Colombia	Ferro	Jakeline	Caja de Compensacion Familiar -Cafam	Director - Empretec Programme
Colombia	Mateus	Claudia	Pontificia Universidad Javeriana	Directora de Posgrados- Facultad de Contaduria Publica
Colombia	Villegas	Cielo	Ministerio de Comercio, Industria y Turismo	Directora de Micro, Pequeña y Mediana Empresa -MIPYMES
Colombia	Franco Franco	Wilmar	Consejo Técnico de la Contaduría Pública	Presidente
Colombia	Hernandez	Gerardo	Superintendencia Financiera de Colombia	Superintendente financiero
Colombia	Cuellar Losada	Glarina Lorena	Superintendencia Financiera de Colombia	Profesional de la Subdireccion de Analisis e Informacion
Colombia	Plaza Chamorro	Raul Alexis	Superintendencia Financiera de Colombia	Profesional de la Subdireccion de Metodologia y Analisis de Riesgo
Dominican Republica	Tapia de Valdez	Andrea	Instituto de Contadores Públicos Autorizados de la República Dominicana	Vocal Junta Directiva del ICPARD.
Dominican Republica	Perez Diaz	Juliana	Superintendencia de Seguros de Republica Dominicana	Directora Financiera
Ecuador	Proaño	Sonia	Ministerio de Finanzas	Directora Nacional de Estados Financieros
Ecuador	Vicuna	Magdalena	Ministerio de Finanzas	Subsecretaria de Contabilidad Gubernamental
Ecuador	Estevez	Roberto	Ministerio de Industrias y Productividad	Director de Fortalecimiento Empresarial e inteligenica de Negocios
Ecuador	Herrera Delgado	Rosa Maria	Superintendencia de Compañías	Asesora Direccion Regional de Seguros
Ecuador	Patricio	Salas	Federación Ecuatoriana de Empresas de Seguros	Secretario Ejecutivo
Ecuador	Solar	Gladys Margarita	Superintendencia de Compañías	Subdirectora de Control y Normatividad
Ecuador	Estrella	Alexei	Consultant	Consultant
El Salvador	Flores de Rodriguez	Rosibel	Conamype / Ministerio de Economia	Subdirectora de Desarrollo Empresarial
El Salvador	Ventura Sosa	Jose Antonio	Consejo de Vigilancia de la Profesion de Contaduria Publica y de Autoria (CVPCA), Ministerio de Economia	Presidente
Peru	Salazar Frisancho	Ángel	Consejo Normativo de Contabilidad del Perú	Miembro del Consejo Directivo Permanente
Multilateral	De Olivera	Amaro Luiz	IASB Board	Member of IASB Executive Board for Latin America
Multilateral	Moya	Carlos	Alliance for Financial Inclusion	Regional Coordinator Latin America and Caribbean
Multilateral	Merry	Alice	Impact Insurance Facility - ILO Regional Office for Latin America and the Caribbean	Research Analyst
Multilateral	Ebrahimi	Sarah	Expert on Insurance	Independent
Peru	Salazar Frisancho	Ángel	Consejo Normativo de Contabilidad del Perú	Miembro del Consejo Directivo Permanente
UNCTAD	Martinez de Silva	Cristina	Economics Affairs Officer	UNCTAD