2 billion people around the world are excluded from the financial system, of whom 210 million live in Latin America[1].

63 million of these people live in countries where the BBVA Microfinance Foundation operates[1], and 27 million are self-employed or micro-entrepreneurs[2].

1_Source: 2014 Data, Global Findex, World Bank. The Global Findex database is the world's most comprehensive database on financial inclusion that consistently measures people's use of financial services across countries and over time. It consists of over 100 indicators and is based on interviews with about 150,000 nationally representative and randomly selected adults (age 15+) in over 140 countries. The survey was carried out using randomly selected, nationally representative samples. Denotes the number of respondents who report having an account (as sole title owner or with someone else) at a bank or another type of financial institution.

2_IDB – Fomin 2015, Financial Inclusion in Latin America and the Caribbean: Data & Trends.

Yolanda Guerrero Payano

BBVA Microfinance Foundation

BBVAMF is a microfinance group of reference in Latin America, operating through eight microfinance institutions. Its sustainable and responsible management and its strong emphasis on technological innovation have borne fruit, with solid growth and its proven commitment to serving vulnerable people in society.

At the BBVA Microfinance Foundation we work towards a better future for disadvantaged people, creating opportunities for sustainable and inclusive social development through Responsible Productive Finance.

Scan the QR code and watch the video about BBVA Microfinance Foundation's solution for a better future

Blanca Español

In Latin America 176 million people are poor, of whom 76 million live in extreme poverty, while nearly two thirds of the people who have managed to climb out of poverty in recent years are still vulnerable and thus may fall back into that situation.

BBVA was aware of the issues and the difficulties in making progress towards a less unequal world, for which reason it created the **BBVA Microfinance Foundation** in 2007, as part of its corporate social responsibility program.

It is a non-profit institution with the mission of driving sustainable and inclusive economic and social development for disadvantaged people in society, through Responsible Productive Finance. A mission that is entirely aligned with the bank's institutional purpose: **"To bring the age of opportunity to everyone"**. An initiative that aims to become a social tool capable of advising each client according to their needs, helping them to realize their dreams.

Our *raison d'être*

Major progress has been achieved in debt reduction in the last 25 years. The number of poor people is currently less than a third of what it was in 1990. Inequality has fallen in emerging countries and the middle classes there have expanded to reach never-before seen figures. The vigorous economic growth in these countries over the period, 5% p.a. on average, is the key factor behind this change.

However, this progress is endangered by the world economic slowdown and the uncertainty it generates. In Latin America, 176 million people are still poor, 76 million of them extremely so, while nearly two thirds of the people who have managed to climb out of poverty in recent years are still vulnerable and thus may fall back into that situation. Poverty is a moving target.

The lack of opportunities, the informal economy, the paucity of public services, social exclusion, lack of participation and the limits to accessing different markets are factors that account for this performance and that have made it more difficult to break the cycle of poverty and vulnerability and to reduce the likelihood of these being perpetuated across generations.

One defining feature of this situation is that nearly half the labor force is made up of informal workers, which means precarious wages, little job stability, scarce social security cover and non-compliance with labor rights. This demonstrates the important weight of self-employed workers and/or micro-entrepreneurs in different activities as a way to escape this labor market structure and its implications.

In order for these people to be able to develop their activities, financial inclusion is fundamental, and continues to be a task not fully tackled. **Despite the progress made in the last few years, which has brought down financial exclusion by 20% (500 million people), 2 billion adults in the world still do not have access to the financial system, of whom 210 million are in Latin America; as one would expect, it is particularly prevalent among the poorest segments.**

These levels of exclusion are connected, in some countries, with an undeveloped financial sector, incapable of reaching a wide section of society because of lack of scale, inefficiency, poor corporate governance models and its own financing difficulties. But in other occasions, even when the financial sector is more developed, there are many people who simply cannot reach these services. The informal economy, geographical distances, uncertain income streams, absence of collateral and patchy financial culture are the main impediments to access.

Financial inclusion is essential in order to reduce vulnerability and achieve more inclusive economic growth. It is fundamental for anyone wanting to begin an activity or expand an existing one, to smooth consumption, to create assets and mitigate risk. Financial exclusion is an obvious obstacle to development. Its causes lie mainly in market failures resulting from inaccurate information and its asymmetries. In those environments where an entrepreneurial culture can flourish, difficulties in accessing the financial market condition whether any project gets off the ground or can grow, because of the limitations to accessing external funds.

Deprived of financial services, poor individuals and small companies have to rely on their own resources or on informal funding sources to take advantage of the opportunities within their reach. By contrast, financial policies that encourage appropriate incentives and help to overcome obstacles in accessing funding are fundamental; not only in order to achieve stability, but also growth, poverty reduction and a fairer distribution of resources and skills.

It has been proven that, in the last 30 years, when people who are living in poverty are given the opportunity to access financial services, they do so responsibly, because of the high value they attribute to these services, and the differential value these offer compared to the traditional informal sources to which they were accustomed.

BBVA Microfinance Foundation

In order to tackle this challenge, **in 2007 BBVA created the BBVA Microfinance Foundation**, as part of its corporate social responsibility program. The institution is non-profit, **with the mission of driving sustainable and inclusive economic and social development for disadvantaged people in society, with Responsible Productive Finance.** This approach involves putting economically vulnerable small entrepreneurs at center stage, providing them with a complete range of financial products and services, as well as the training and advice to accompany them in their productive activities, helping them to achieve success over time.

Erica González

The key lies in recognizing potential not only through more conventional tangible attributes, but also other more intangible ones such as imagination, commitment, willingness to pay, perseverance, empowerment, sense of responsibility, etc., acknowledging these, and giving them value.

Individual knowledge of the client, their environment and their domestic/business circumstances sits at the core of this model. In each case, the Foundation takes into consideration the client's profile and type of vulnerability.

The aim is to support entrepreneurs in generating a sustainable profit flow, maintaining a long-term relationship. The results shown in this publication prove that clients improve their standards of living and development, which reinforces the Foundation's conviction that the financial channel plays an important role both in the economic growth of the countries in which the Foundation is present, and in the improvement of the living conditions of its citizens, whatever their social stratum.

The initiatives that set us apart

The magnitude of the financial inclusion challenge for society's vulnerable segments means that it is **essential to continue working towards multiplying the scale that has been reached and also to succeed in reaching those segments most cut off from the financial system**. This requires making operations on a small scale sustainable, given the burden of overheads, the high transactional costs of the small sums involved and the high costs of growing the market because of its dispersion.

In its fight to overcome the challenges facing the sector, in 2015 the BBVA Microfinance Foundation group of institutions (BBVAMFG) made progress on iniciatives in Human Capital, Technology, and Risks, in order to strengthen, deepen and optimize its client relationships.

In the area of Human Capital, there are two strategic lines of approach. The first is to build a solid and resilient organizational culture, shared by all eight institutions making up the BBVAMFG in seven countries. Progress has been made in framing norms, habits and shared values for the employees making up the group, with the aim of consolidating the goals of its mission. Thanks to this program, 900 people have been trained, comprising all the directors and 60% of middle management.

The second is the roll out of training programs across an e-learning platform comprising **3,000 online teaching hours**, of which around 50% has content relevant to all markets and corporate subjects, while the remainder is local-specific. There are **7,809 active students** on the platform, of whom 78% have carried out at least one training activity, with a total of **110,000 hours of completed training**, representing an average of 18 hours per student.

In the area of Technology, the digital gap between countries and different population segments is narrowing. This is the basis on which a good part of banking's future is being built, one in which a wide range of different digital technologies already co-exist, mobile devices, social networks, data mining and process digitization. All these combined have the power to transform the market for clients and for those currently involved in the sector.

The initiatives that have been executed in this field have identified that **not only will clients change which entry channels they use and how they carry out transactions to suit them, but that microfinance institutions themselves will also adapt their perspective**. The traditional branch office will give way to a model with much more accessible offices, evolving towards greater mobility on the part of microfinance officers on the ground. They will use these new technologies which give them greater flexibility and power of response, driving a speedier system, and one that serves its clients better, combined with lower transaction costs and more efficient supervisory systems.

Consistent with this vision, **during 2015 progress has been made towards the roll out of a shared core banking system specializing in microfinance processes**, handling all business processes and providing high customization flexibility, so as to optimize time to market and facilitate the use of all service delivery channels. This also makes it possible to introduce economies of scale and synergies for the operation as a whole.

Progress has also been made in the construction of a digital back-office by implementing a corporate solution integrated with the core banking system that will ensure that documents involved in business processes are digitized, enabling entry from any channel and making operating procedures faster and more flexible.

Mobility is and will continue to be key to the sector in the future. Work continues to develop omni-channel digital mobility solutions that are completely integrated with the core banking system and the back-office, using four components: the officer, correspondent, entrepreneur and client-care call center.

In the Risks area, a series of initiatives have been developed focusing on a more complete and deeper understanding of the client and microfinance activity. Work is in progress on rolling out a dynamic risk model that is applied to thresholds on the most important metrics for all the risks to which the institutions are exposed: credit, operational, liquidity and structural. In addition, the system of management by categories has been reinforced, introducing statistical models that use financial and behavioral information that also assesses elements of the operation's impact on clients.

The relationship banking model also entails clients being accompanied throughout each phase of their productive cycle after the disbursement. For this reason, recovery management focuses on anticipating behavior, spending actual time on the ground with the client, and the early detection of potential problems the client might have when options still exist to normalize their productive activity. The sales system and risk tools have been adapted to facilitate the officers' work.

Furthermore, a reputation risk management model has been designed, to be used by all Group institutions, which will make it possible to integrate this risk into the global risk management carried out by institutions.

Major progress has also been made in the area of the Code of Conduct dealing with behavioral issues as well as the degree of alignment with the mission's values. A Responsible Attitude Channel has been created that promotes client protection based on the principles of clarity, transparency and responsibility, completing the reputation dimension.

The BBVAMF Group has continued working to strengthen and keep up to date its corporate governance mechanisms, making significant progress over the last few years on governance issues. It has approved a new, unified Corporate Governance Code for the whole group that provides a common framework and will be introduced in each of the institutions through internal regulations adapted to each jurisdiction.

In addition, BBVAMF Group's corporate governance model has been used by regulators and associations for the benefit of the sector. In all, **1,670 people on 48 programs in 5 countries**, of which over 400 individuals are members of the boards of directors or directors of around 100 microfinance institutions in Latin America, **have taken part in training programs led by the BBVAMF Group** in recent years.

Strategic alliances to achieve our mission

BBVAMFG has established strategic alliances with major domestic and international institutions which help to advance its mission. These include the International Finance Corporation (IFC, World Bank Group), the Inter-American Development Bank and Spain's Office for International and Latin American Cooperation (part of the Ministry for Foreign Affairs & Cooperation).

BBVAMFG continued to strengthen its strategic network of alliances in 2015:

- Alliance with the United Nations Development Program for gender equality and women's empowerment, UN Women, signed on 10th February 2015 to promote development and inclusion among entrepreneurial women with scarce resources in Latin America and the Caribbean, as an engine for prosperity and welfare for their families and of social progress in their communities. As a global defender of women and girls, UN Women has the mission of accelerating their progress and improving their living conditions.

- Membership of the Private Sector Advisory Group to the UN Sustainable Development Goals Fund, signed on 16th April 2015.

  The work of the BBVA Microfinance Foundation has been recognized by the United Nations Sustainable Development Goals (SDGs) Fund as one of the 13 private institutions worldwide chosen to form part of its Private Sector Advisory Group. This important mechanism for cooperating in the development of the UN's system supports the combined effort made by UN agencies, governments, civil society and the private sector to meet the SDGs set by the UN for 2030, as a continuation of the Millennium Goals.

- Framework agreement with the governmental High Commission for Brand Spain, signed on 24th June 2015 to support higher awareness of Spain and greater differentiation in its reputation in Latin America through the BBVAMFG's work. The governmental High Commission for Brand Spain is in charge of recommending measures to the government to promote Spain's reputation abroad, as well as of the planning, promotion, coordination and tracking of Spanish activity abroad in the public and private sectors, in economic, cultural, social, scientific and technology spheres.

Awards received

- The BBVA Microfinance Foundation was honored by the United Nations for its contribution to the new Sustainable Development Agenda. The UN notes in its report "Working Together towards Sustainable Development Goals (SDG): A Framework for Action" that the BBVA Microfinance Foundation sets an important example in its activities designed to promote the SDG of poverty eradication, sustainable, inclusive growth and gender equality.

  The report, prepared by the University of Harvard and by Business Fights Poverty, dedicates an entire chapter of its research to the BBVAMF Group, pointing to the alignment of its activity with the UN's vision and its contribution to compliance with SDG. The UN highlights as good practice the system of social measurement created by the BBVA Microfinance Foundation, based on a set of social and economic metrics, which is a benchmark in the sector.

- The Fundación Compromiso y Transparencia (Commitment & Transparency Foundation) acknowledges the Foundation as one of "The 10 best practices in transparency and good governance in 2014", a distinction for institutions which stand out for their transparency and good governance every year, for contributing to driving good practice and to raising performance standards in the sector. The BBVAMF Group's Performance Report is recognized as driving and developing an impact methodology in the microfinance sector focusing on strengthening and promoting micro-entrepreneurial clients.

- The report "Spanish companies create value. Corporate Social Responsibility in Latin America ", published by the Spanish Ministry of Foreign Affairs & Cooperation and Brand Spain, gives significant coverage to the work of the BBVA Microfinance Foundation in the region.

- The magazine Compromiso Empresarial, in its report "Building Trust 2014. Transparency and Good Governance in Spanish Foundations' webpages" has highlighted BBVA Microfinance Foundation for the second consecutive year as "the only institution to offer information about its impact, understood as the benefits for the client population. Not only does it provide information on evaluation methods for measuring its activity, but it also demonstrates – with objective indicators - that it is fulfilling this commitment". According to this report, the Foundation is notable for its exemplary mission, vision and targets, making it "an example of a Foundation with a well formulated mission and a very clear focus".

Partners

Corporación Mundial de la Mujer Colombia (Women's World Corporation, Colombia)
NGO active in sustainable social investment in Colombia, through its support for human development and the enhanced productivity of population groups that are vulnerable and in economic poverty, particularly women.

Corporación Mundial de la Mujer Medellín (Women's World Corporation, Medellin)
NGO focusing on the development, growth and transformation of social and business networks. It provides tools and services to train, consolidate and sustainably grow micro-enterprises and protect the families dependent on them.

Adopem NGO (Asociación Dominicana para el Desarrollo de la Mujer: Dominican Association for Women's Development)
NGO aiming to improve the living conditions of Dominicans. Its mission is to enhance and strengthen entrepreneurial skills, together with the social and human development of its clients and their families. It provides training, assessment and research services in a number of areas, generating social inclusion and a positive impact on business growth and Dominicans´ living conditions.

Servicios Educativos, Promoción y Apoyo Rural (Educational Services, Support and Rural Development)
This non-profit promotes the reinforcement of democratic institutions and sustainable rural development in Peru's central region, through the execution of development programs and projects.

Hogar de Cristo (Home of Christ)
Major Chilean charitable institution committed to the poorest of the poor and the socially excluded, endeavoring to open up their opportunities for a better life.

International Finance Corporation (Member of the World Bank Group)
The International Finance Corporation is owned by 188 member countries. It is the largest global development institution focused exclusively on the private sector in developing countries. As a member of the World Bank Group, the goals of the IFC are to end extreme poverty by 2030 and boost shared prosperity in every developing country. It uses its capital, expertise, and influence to create opportunity where it is most needed.

Oikocredit
Oikocredit Ecumenical Development Cooperative Society is a worldwide cooperative based in the Netherlands, founded to provide churches and church-related organizations with their own alternative investment channel. It provides financial services and supports organizations to improve the quality of life of low-income people and communities in a sustainable way. Oikocredit currently provides funding to the microfinance sector, fair trade organizations, cooperatives and small to medium enterprises.

INCOFIN
Incofin Investment Management (Incofin IM) manages and advises funds that invest in microfinance institutions in developing countries. As a specialist in rural microfinancing, Incofin IM's main goal is to reach out to people who live in more secluded rural areas and/or who are active in the agricultural sector. Incofin IM attaches great importance to the social purpose of the organizations which it supports. Only those institutions that have a positive impact in terms of their clients' and staff's standard of living may qualify for investment. With headquarters in Belgium, Incofin IM finances and supports organizations in over 40 countries.

responsAbility
Based in Switzerland, responsAbility Investments AG is one of the world's leading asset managers in the field of development investments. The company's investment vehicles supply debt and equity financing to non-listed firms in emerging economies and developing countries. Through their activities, these firms help to meet the basic needs of broad sections of the population and to drive economic development, leading to greater prosperity in the long term.

Puerto Rican Economic Development Bank
Belonging to the Free Associated State of Puerto Rico, the bank contributes to the effective implementation of public policies to promote Puerto Rico's economic development by providing financial products to small and medium sized businesses in order to aid job creation and retention.

BBVA Microfinance Foundation

Management Team

Javier Flores
CEO

Paloma del Val
Legal & General Secretariat

Joao Costa
Service Delivery Infrastructure

Miguel Ángel Ferrer
Human Resources

María Oña
Communication & External Relations

Miguel Ángel Charria
Risks

Joaquín Ángel Cortés
Internal Auditing

Giovanni Di Placido
Analysis & Research

Alejandro Lorca
Finance

Silvia Duro
Compliance

Miguel Ángel Martín
Commercial Development

Rodrigo Peláez
Impact Assessment

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(pictured from left to right)

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Latin America **Macroeconomic Context**

Latin American growth continued to slow, posting the poorest rate in the last six years and the worst in the last 32, if the 2009 contraction is excluded.

The global economy in 2015 was shaped by three major events which all impacted strongly on the Latin American region (hereinafter “the region”). The first was the consolidation of China’s slowing growth rate: the Asian giant is going through a phase of correcting the imbalances in its economy and of putting more emphasis on driving internal consumption, moving its manufacturing production towards higher added value sectors, while the service sector is gaining weight within its economy’s aggregate supply.

The second reason, linked to the first, was the significant adjustment to raw material prices, which has resulted in a major correction to the region’s revenue flows.

The final event was the expectation of the Federal Reserve’s monetary normalization and the corresponding adjustments to interest rates, which drove significant capital outflows from the region towards the US, increasing the perception of greater risk; this had the generalized effect of a sharp depreciation in key currencies, notable liquidity squeezes in some markets, an increase in inflation and a less expansionary monetary policy on the part of the region’s central banks, which corrected their intervention rates.

In this climate, Latin American growth continued to slow, posting the worst rate in the last six years and the lowest in 32 if we strip out the 2009 contraction suffered in the region as a result of turbulent financial markets and the crisis in advanced economies.

In 2015[1] the Region’s economy is estimated to have contracted by 0.5%. However, there are some significant variations in this performance, with a clear differentiation between different groups of countrie.In general terms, both consumption and investment are weaker in all territories, as is aggregate supply, in an environment marked by sharp corrections to the prices of raw material export prices and deterioration in the external sector.

The drop in raw material prices has impacted on South American countries that are net exporters, cutting export revenues, reducing investment and affecting fiscal balances negatively.

This has meant that most of the main economies are growing below their potential, and this has been exacerbated in some countries where macroeconomic management was less prudent in the boom years for raw materials and in some cases where idiosyncratic factors have played a part, such as in Brazil, whose economy has shrunk by around 3.1% and Venezuela, with a fall of nearly 10%.

1_Data to the end of 3Q15

Daniel Perán

The good news is that growth was steady in the United States, which helped those countries with the strongest links to that economy in trade, remittances and tourism, such as Central America and the Caribbean, the latter strengthened by the positive impacts to their economies of the correction in raw material prices, in terms of lower inflation and a stronger export market, inasmuch as they are net importers of these products.

This performance means that we are seeing an uncoupling of growth in the region between different types of economies, not only by virtue of their dependence on raw material exports but also depending on their macroeconomic management in previous years. The BBVA Microfinance Foundation's footprint, composed of countries that have performed at different speeds, has grown at a compound rate of around 2.9%.

However, these lower rates of growth in general around the region are a factor to bear in mind in the social arena, since they will have an impact on the progress achieved in recent years in terms of poverty and inequality reduction. Many of the people who have climbed out of poverty are still very vulnerable, with the result that two or three years of lower growth will reverse part of the progress made in earlier years.

According to BBVAMF estimates, in 2015 poverty levels increased by 50 bp, implying that 28.5% of the Region's population is in this situation. In one year alone, 12 million people have fallen into this category, bringing the total at the close of 2015 to 179 million, of which 46% are extremely poor.

If there is a more extended phase of lower growth, the reverses will become more pronounced: as well as the inherent weakness of the economy, there will be the impact caused by a tighter policy of transfers to disadvantaged sectors – due to the need to correct their fiscal imbalances - than the main economies have been following in recent, more expansive years. The pro-cyclical nature of fiscal spending also has these effects on poverty, helping to reduce it in good times and to increase it in bad times.

The very nature of the region's labor market intensifies these impacts. Despite low unemployment rates, wages in the aggregate are also low. After a period of falling labor participation, this was reversed in 2015, with a more numerous adult population entering the labor market; however, in an environment with lower demand for labor, this translated into an increase in both unemployment and sub-employment.

An important part of the jobs created were in self-employed activities, whereas few waged jobs were generated. As a result, average labor productivity fell; in an environment of higher inflation, this was reflected by a fall in real wages.

Consolidating higher productivity activities in the segment of self-employed workers and micro-entrepreneurs involves a learning curve and an understanding of the markets in which they are operating. The spasmodic entry and exit of floating workers from other markets has been shown to be neither successful nor productive in the short term, so a period of consolidation is required; many new workers from these markets generally cannot afford this.

At the moment around 140 million people, 48% of the labor force, work in the informal sector; self-employed workers and/or micro-entrepreneurs make up about 30% of the labor force and 62% of those in the informal sector. There are 42 million informal workers in BBVA Microfinance Foundation's footprint and 7 million self-employed and/or micro-entrepreneurs.

Access to finance is one of the factors that to a large degree increases the probability of success in these markets. In Latin America around 210 million adults, of which 63 million are in our footprint, have no access to the financial system. Notwithstanding the progress made in financial inclusion in recent years, closing the gap between informal and formal financing continues to be one of the main tasks still to accomplish if the performance of a labor market with these structural characteristics is to improve, enabling self-employed activities and micro-entrepreneurs to raise their average productivity, and for this to be visible in an improvement in workers' standard of living in this market. The achievements showcased in this report on the impact of financial access on the Foundation's clients show that this is possible.