

Emprende **Chile**

Social Performance
Report 2016



**Measuring
what really
matters**

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“We all have an unsuspected reserve of strength inside that emerges when life puts us to the test”.

Island Beneath the Sea
Isabel Allende

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At the service of microentrepreneurs

Emprende was the first Chilean microfinance institution focusing exclusively on supporting productive and commercial activities on the part of low-income segments. It is committed to financial education and micro-insurance policies for small businesspeople.

Emprende Microfinanzas S.A. (Emprende) is an organization that specializes in financing Chile's vulnerable entrepreneurs, with the aim of promoting their economic and social development by providing products and services that are tailored to the particular needs of this segment of the population. The institution is over 30 years old, initially existing as a savings and loan cooperative, and since 2009 as a member of the BBVA Microfinance Foundation.

Emprende was a microcredit pioneer in Chile. It was the first Chilean microfinance institution focusing exclusively on supporting productive and commercial activities on the part of low-income segments. It is a non-profit, social responsibility institution. Its aim

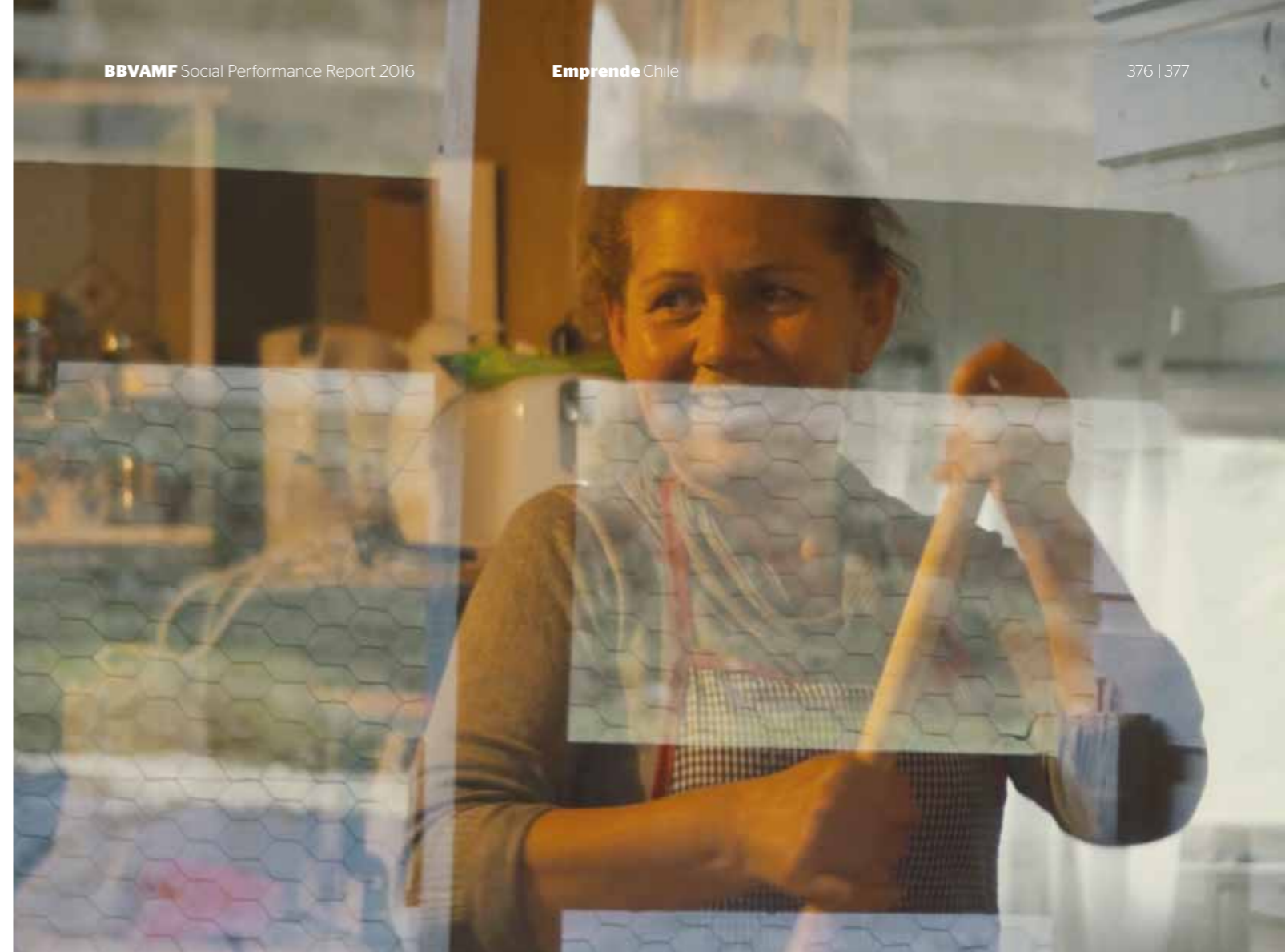
is to contribute to sustainable progress for the country's vulnerable entrepreneurs through Responsible Productive Finance.

In 2016, Emprende signed agreements with the municipalities of Lo Prado, Pudahuel, Cerro Navia and Estación Central, through its productive development corporations. In November 2016, it agreed to take part in the *Financial Services in Business Development Centers Program*, Sercotec. This network of centers operates as part of Chile's Ministry of Economy, Development & Tourism and was set up as part of the arrangement between the governments of Chile and the United States to promote enterprise and growth on the part of SMEs. The Business Development Centers have the purpose

of contributing towards increased private sector productivity and sustainability. The program also includes financial education and microinsurance policies designed for small businesspeople.

Emprende was a microcredit pioneer in Chile, and exists to support the economic and social development of vulnerable entrepreneurs.

In 2016, it granted loans to over 11,000 entrepreneurs, of whom more than 58% are women. With a loan portfolio of nearly USD 15 million, it has a presence in six of the country's regions (Valparaíso, Metropolitana de Santiago, O'Higgins, Maule, Bio Bio and Araucanía), employing 163 people in 21 offices.■



Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)	N° of employees
15,213,664	163
Amount disbursed in 2016 (USD)	N° of offices
15,555,474	21
N° of transactions in 2016	
11,690	
Average disbursement in 2016 (USD)	
1,331	

Management team and board

Management team		Board
Pablo Coloma General Manager	Luis Conejeros HR & Communications Manager	Ramón Feijoo President
Rosa González Business Development Manager	Alejandro Vidal Infrastructure & IT Resources Manager	Jorge Cruz Member
Diego Solar Finance Manager		Javier M. Flores Member
Rodrigo Urrea Risk & Collections Manager		

Measuring

Chile has one of the lowest rates of poverty in Latin America. Emprende continues to serve the population with the least access to financial services and seeks to create long-term relationships with them in rural areas. The drive to serve these segments has had positive outcomes, with their businesses growing in size and increasing in efficiency. Monthly business sales figures have risen by 10%. Moreover, 8% of the microenterprises financed have increased the number of their employees after three years.



Total clients

11,106

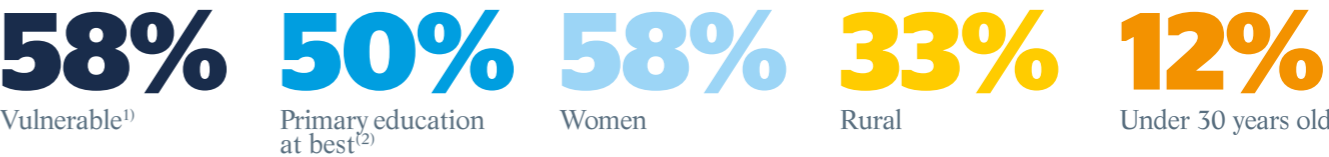
New credit clients

3,673

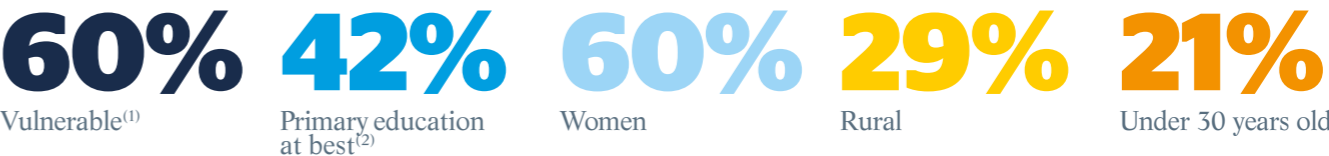
(1) According to the Social Development Ministry's poverty line, traditional methodology. Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

(2) Proportion of all credit clients who have completed primary education, at best.

Total credit clients as of Dec 31, 2016



New credit clients 2016



Our clients and our scale

During 2016 Emprende gave financial access to a larger number of clients, most of them women entrepreneurs.

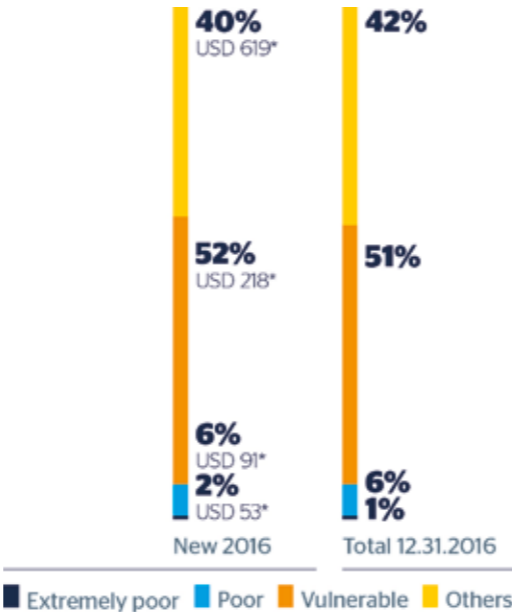


60% of new vulnerable clients live on USD 6.7 per person/day from their microenterprise, and the 8% in the lowest income bracket (*poor*) lives on USD 2.7 per person/day.

- The number of clients enrolled has increased in 2016 from 2015 (28.7% growth), but *vulnerability* levels have fallen thanks to a strategy focused on sustainable scalability.
- There is insufficient information about the older cohorts (2011-2013) on the expenditure and home size variables to be able to report on economic *vulnerability*.

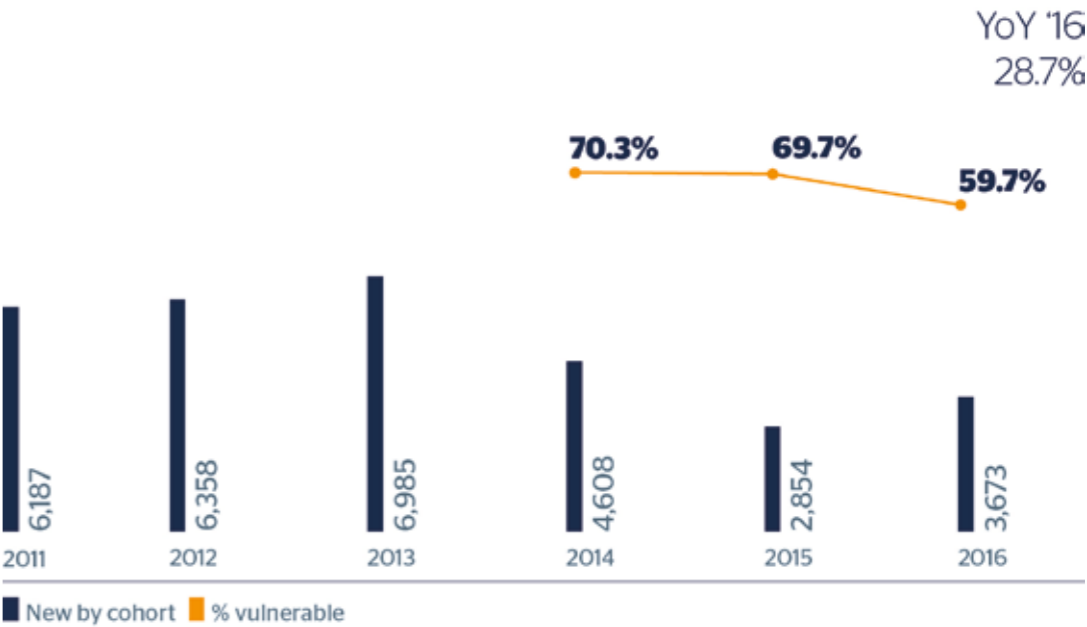
(1) According to the Social Development Ministry's poverty line, traditional methodology. Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three are classified as *vulnerable*.

Clients' economic vulnerability (1)



*Monthly net income per capita.
Source: Emprende. BBVAMF calculations.

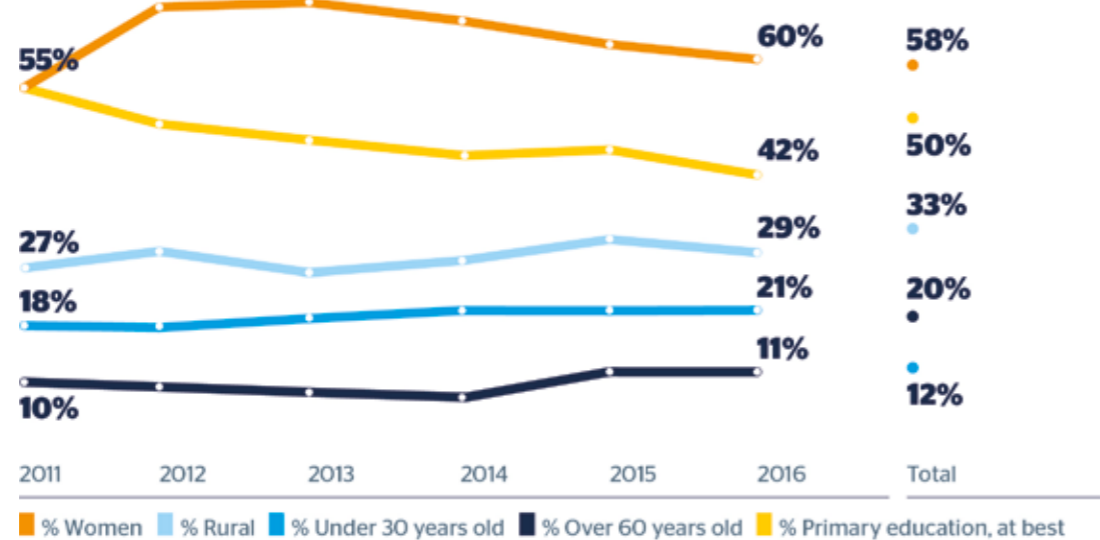
New credit clients (2)



(2) New clients (without previous loans) signed up over the year.

Source: Emprende. BBVAMF calculations.

Profile of our clients (3)



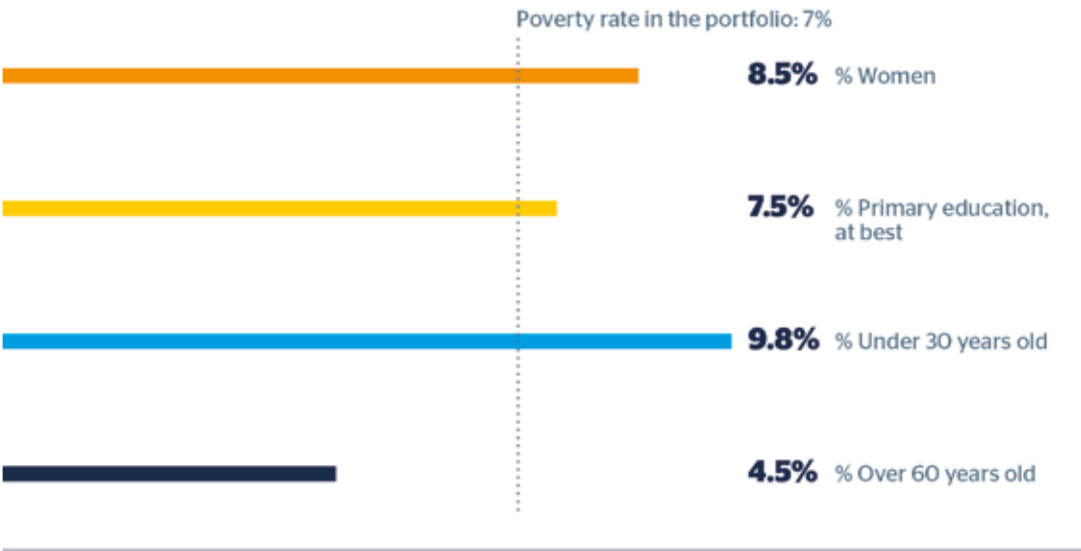
Source: Emprende. BBVAMF calculations.

The focus has remained on serving vulnerable segments, such as women (60% of the new clients served in 2016) and those with lower educational attainment (42%).

- Monthly sales and the average disbursement of new clients have increased particularly strongly in the last year; this accounts for the drop in the degree of *vulnerability* among new clients. The rise in both variables has meant that the average installment over sales has remained unchanged from 2015.

(3) New clients (without previous loans) signed up over the year. Total represents the entire portfolio current as of 12.31.2016.

Poverty profile (4)



Source: Emprende. BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



Source: Emprende. BBVAMF calculations.

(4) Clients current at 12.31.2016. The poverty level of clients in the rural environment cannot be established because the indicator is not available at client level.
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

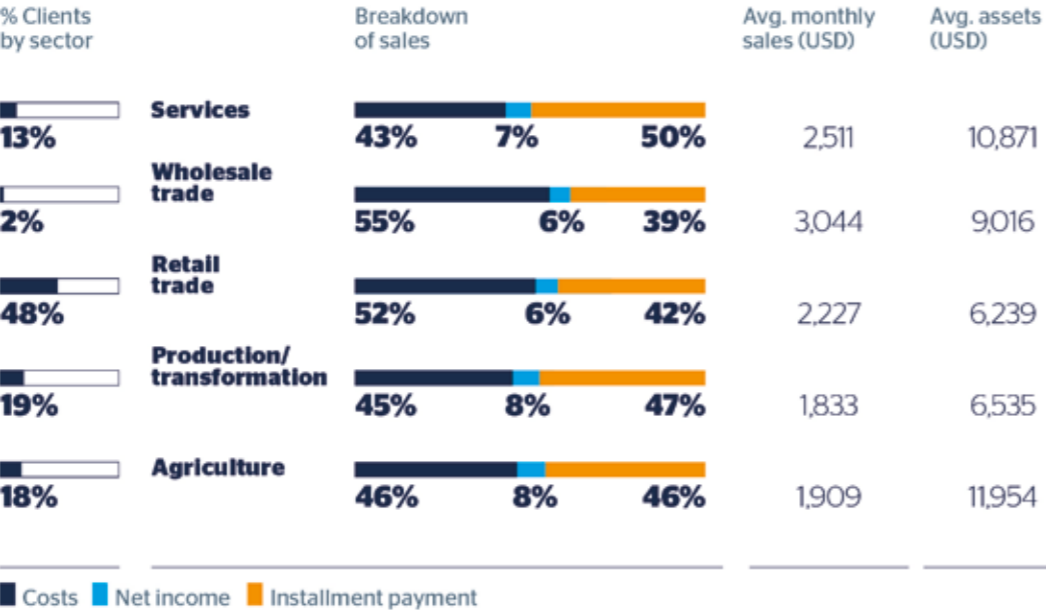
Our clients' businesses

Emprende clients develop their activity in a wide range of sectors, posting positive growth rates in sales and net incomes of over 10%.



- The institution acts in a range of sectors, but 50% of clients work in *trade*. Both the average value of monthly sales and margins (after paying the installment) are high compared to other institutions because the profile of clients served is, by comparison, less *vulnerable*. At the same time, the weight in the installment is comparatively low and relatively stable between sectors.
- The activity sector where microentrepreneurs are most profitable is *services*, with the highest margin after the installment (50%) and the highest average assets. This is the sector in which the less *vulnerable* clients operate.
- The *agriculture, production/ transformation* and *trade* segments have similar proportions of *poor* clients in their portfolio (around 6%). The average level of assets in the *farming* sector is higher, a reflection of less *vulnerable* clients.
- The structure of expenditure reveals a group of clients with high margins (44% on average). As *vulnerability* falls, businesses grow and become more efficient, managing to reduce their operating expenses (from 60% to 49%) and financial costs (the weight in the installment payment falls from 12% to 6%).
- Emprende clients' leveraging (liability vs. assets) is very low, although it edges up slightly as their *vulnerability* level lessens.

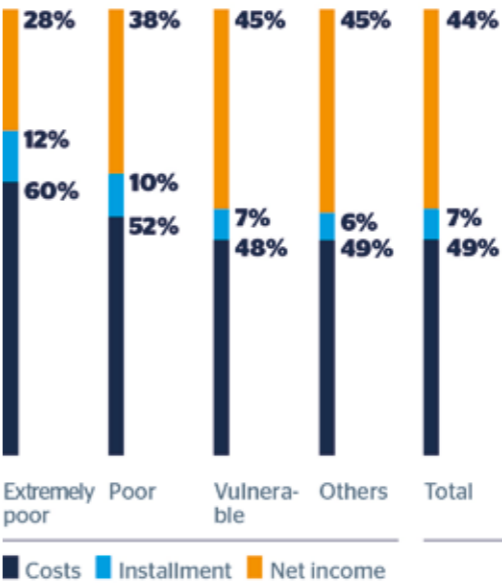
Average margins, sales and assets, by sector (6)



(6) Clients current as of 12.31.2016.

Source: Emprende, BBVAMF calculations.

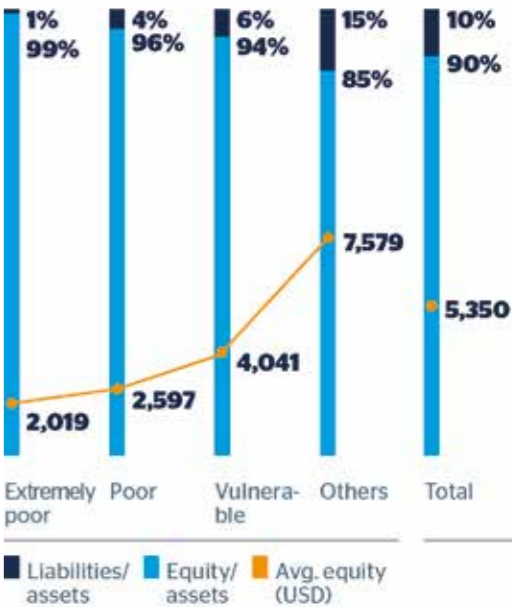
Expenses and margins as % of sales, by vulnerability (7)



(7 & 8) Clients current as of 12.31.2016.

Source: Emprende, BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Emprende, BBVAMF calculations.

Our clients' development

For *poor* clients one cycle is enough to climb above the poverty line.



Emprende is succeeding in upholding longer-term relationships with its clients.

- Emprende retains 63% of its clients after a year and this is improving over time. The 2015 cohort, after a year, has a retention rate of 67% compared to 58% the year before, reflecting an improvement in recent cohorts.

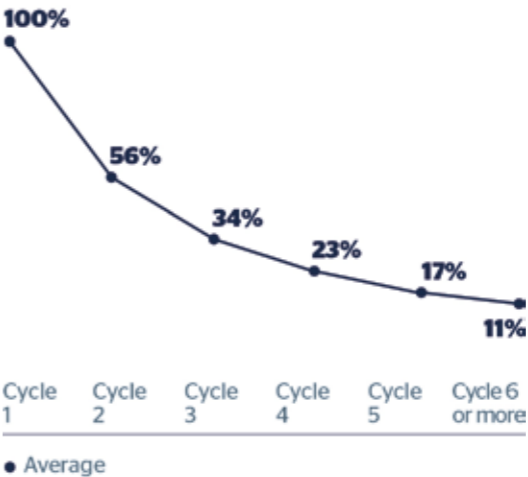
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (by cohort) (9)



Source: Emprende. BBVAMF calculations.

Credit client recurrence (10)



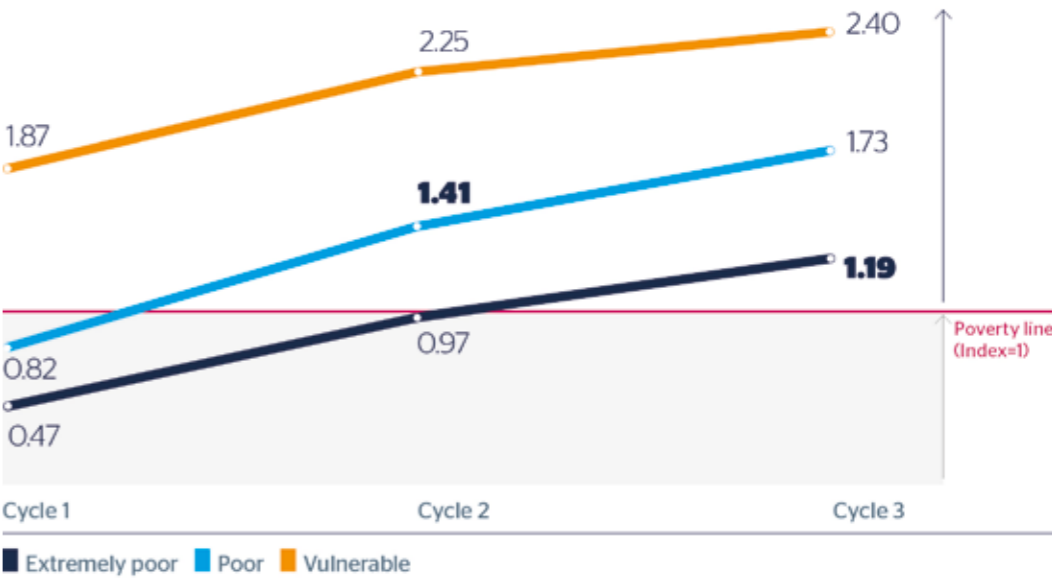
Source: Emprende. BBVAMF calculations.

- 56% of clients with their first loan take out a second, and 60% of these take out a third (34% of the total of clients at the outset).
- On average, with every loan, the ratio of clients' *per capita* net incomes relative to the poverty line improves.
- In particular, for *poor* clients one cycle is enough to climb above the poverty line, while the *extremely poor* achieve this in two cycles.

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 300 days, between cycle two and three is 293 days; between cycle three and four is 285 days, between cycle four and five is 258 days and between cycle five and six is 242 days.

(11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line.

Per capita net income relative to poverty line (11)

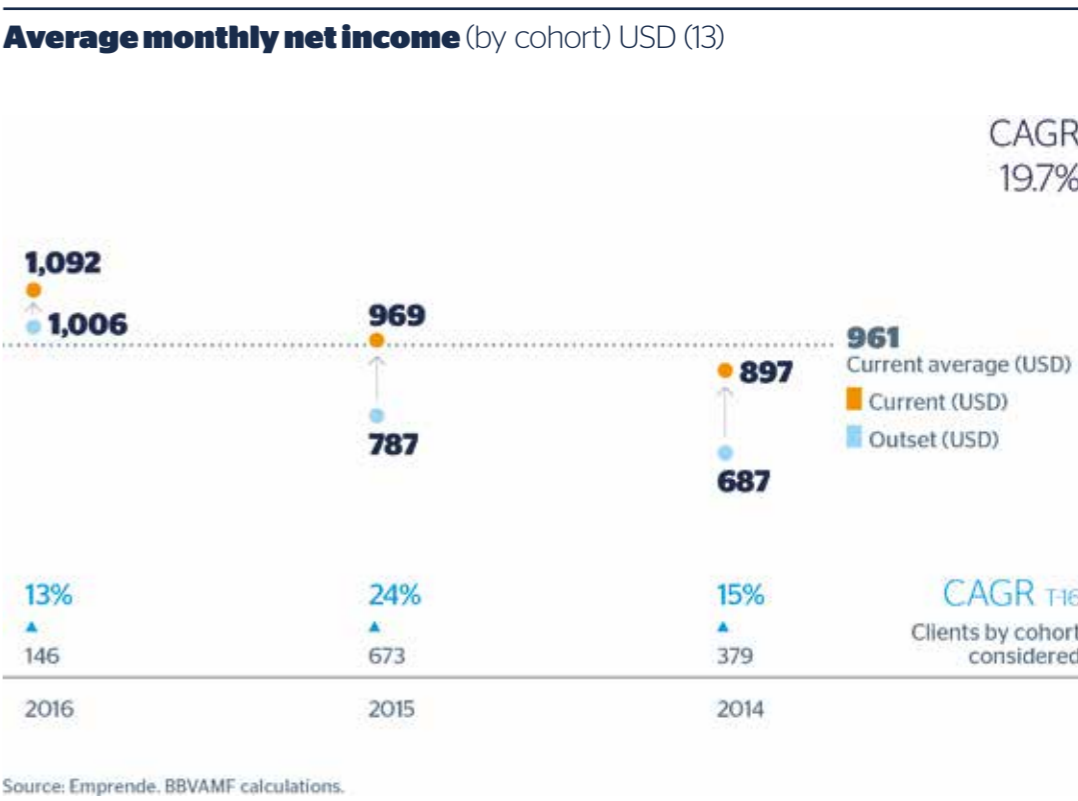


Source: Emprende. BBVAMF calculations.

- Monthly sales and average assets have grown by 10%, while the increase in net income nearly doubles that, showing increased efficiency on the part of clients.
- Despite the high level of assets at the outset, clients still achieve sustained growth.
- There is insufficient information about older cohorts (2011-2013) to report on the development of net incomes and assets.

Emprende clients achieve average monthly sales figures of USD 2,143, up from the average USD 1,796 they reported in 2015.

This shows a sustained growth of client revenue in a context of economic slowdown.

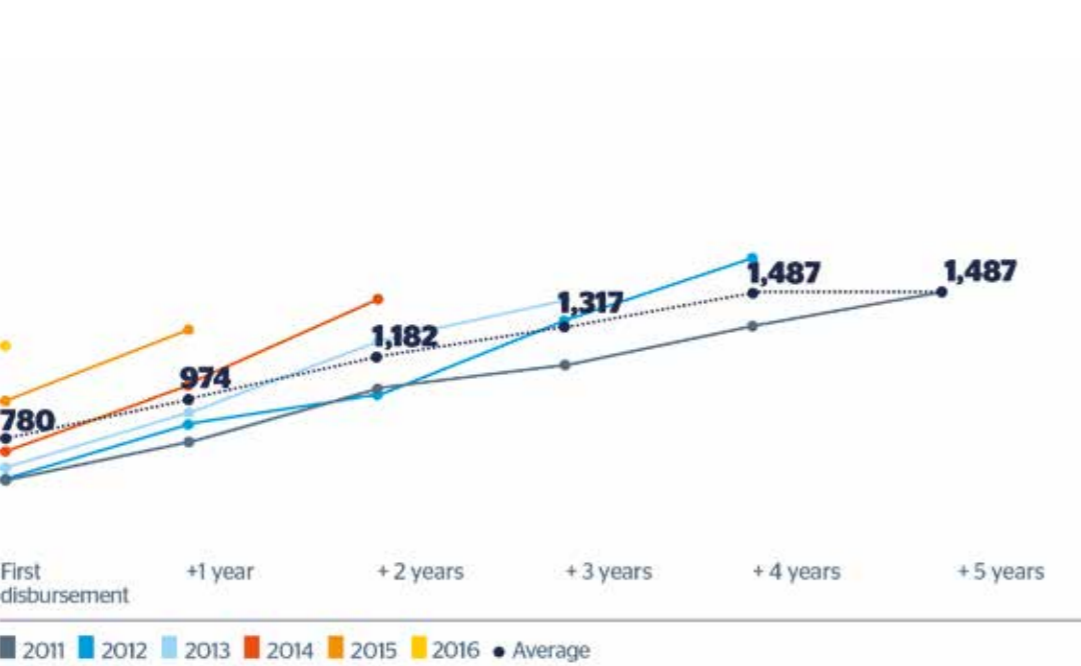


(12) Data on clients current as of 12.31.2016, and who have made another disbursement with the corresponding update of their economic information. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



(13 & 14) Data on clients current as of 12.31.2016, and who have made another disbursement with the corresponding update of their economic information. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Average disbursement per transaction USD (15)



Source: Emprende. BBVAMF calculations.

Client linkage by product type (16)

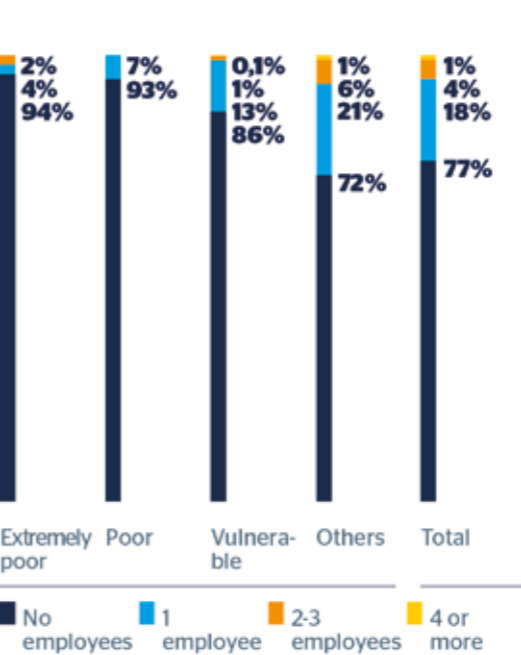


■ Voluntary coverage insurance

Source: Emprende. BBVAMF calculations.

(15) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.
(16) Clients current as of 12.31.2016.

Microenterprise employee breakdown (17)



Source: Emprende. BBVAMF calculations.

Job creation (by cohort) (18)



Source: Emprende. BBVAMF calculations.

Although microinsurance has only been introduced recently, it is very popular with clients: 38% of credit clients have a non-mandatory insurance policy (for more information, see the Microinsurance special projects section).

(17) Number of employees in client enterprises current as of 12.31.2016.
(18) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts between 2013 and 2015.

- As the relationship with the institution matures, clients take out bigger loans.
- For more recent cohorts, the average first disbursement has been bigger and its growth rate higher.
- Emprende is one of the Group institutions whose clients have the greatest capacity to create jobs: 23% of all clients take on one or more employees.
- After 3 years with Emprende, 8% of microentrepreneurs have generated at least one additional job position. This rate continues to improve, compared to performance in 2015.
- Job creation is a multiplier of the microentrepreneur's success, since it gives more families the opportunity to take part in economic development.

What really matters

Three experiences that demonstrate how something small, such as a microcredit, can become something big, when put in the right hands.

María Leviman and her husband have become the most successful strawberry producers in their community, after buying a truck, farm machinery and seeds. Arturo Mora began his timber transport business with his first loan; now he has two trucks, a van and a plot of land where he is planting trees. Marcela Sanhueza has risen to become an executive in one of the institution's busiest branches, where she looks after clients and has seen their hard work and effort with her own eyes.



Entrepreneurial hardwood

In 2007, Arturo Mora began his lumber transport project. Since his first loan, which enabled him to pay for the maintenance on his truck and the gasoline, he has received a further 12 to buy two trucks and a van in which he transports the tree trunks to the cellulose factories. He has also bought a plot of land to plant trees.

Arturo's business was in serious trouble. The three trucks in which he moved lumber that he then sold on to the cellulose plants had broken down and so he was not making any money: "Imagine it, all the money went to pay the mechanics and the spare parts that had to be put in, and on top of that I had to look after my three workers. Not to mention the domestic bills I had to pay", he recalls from that terrible phase. He was thinking about closing the business and reinventing himself with another job, but his family encouraged him not to give up and he decided to carry on fighting to stay open. Luckily, he managed to overcome the obstacles and get the business moving again.

Arturo, who has been married for eight years and has two children, met his wife

when he was still working on the land. Shortly after that he found a job through a friend as a driver of a lumber transport truck. It was love at first sight: "One day I thought of setting up on my own. If my friend could, why not me?" he smiles at the recollection. To do so he needed a little help that would enable him to take his first steps. He remembered that his father had received support from a cooperative, that today is called Emprende Microfinanzas, and decided to follow in his footsteps.

In 2007, he started off in lumber transportation. He was given his first loan from this institution, which allowed him to finance the maintenance on the truck he had just bought and to pay for the gasoline. Since then, he has received 12 loans that he has used to buy two trucks and a van to take

the tree trunks to the cellulose plants. He was also able to buy himself a plot of land to plant trees.

It is not easy managing a business like his. Arturo has overcome the obstacles with his own effort and has made his way: "It's hard, you have to be on top of everything", he explains. "In the winter, it's tough because it rains really hard in this area and the damp affects the quality of the wood. And it's not easy competing with the large lumber transportation firms".

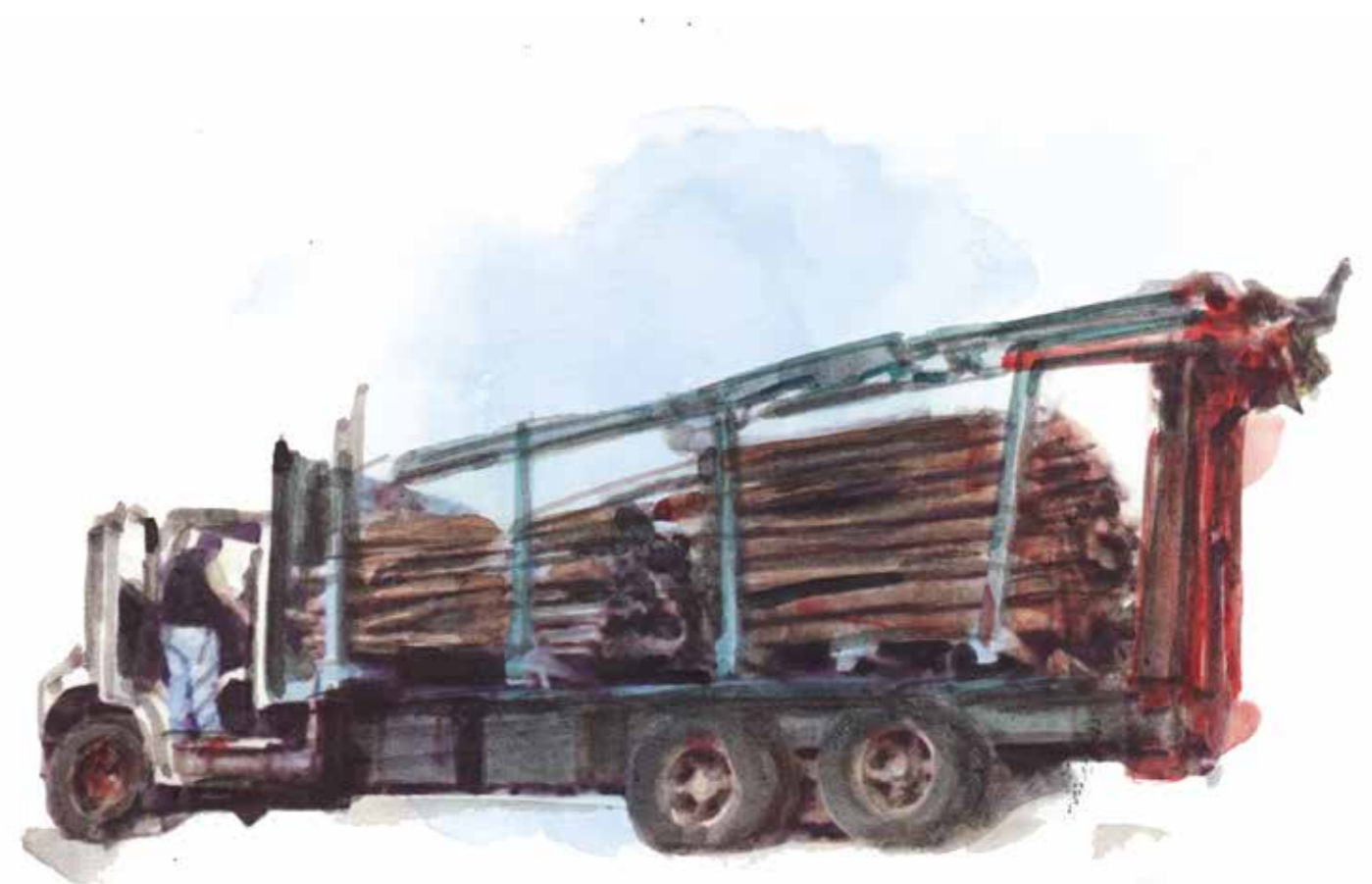
Nevertheless, he is very satisfied, because with the expansion of his business he has been able to offer a job to three employees. "This has made me develop as a person, I have people under me, which has helped enormously in my expansion as a company.

Without a doubt it would have been impossible to reach my goals without them. And now, thanks to Emprende, we can have more machinery", he adds, as he walks between the lumber which is about to be loaded onto the trucks.

When he remembers his beginnings and the ground he has covered, he says he feels proud. What he values most highly is having attained a better standard of living for his family: "I have two children and I have been able to give them more than I had when I was a child, and I have my own home. In the future I see myself with more heavy machinery, taking on more people, spending more time with my family. My dream is to give a house in the country to my children, a good education and to have a quiet life".

Name: Arturo Mora.
Age: 29.
Business: Lumber transportation.
Location: Carahue (700 km from Santiago, Chile).
Employees: Three.
Total loans: 13, for a total of USD 55,000.

Scan the
QR code and
discover
the story
of Arturo



Emprende
Stories of achievement
Arturo Mora

Arturo watches as his employees maneuver the crane to load the tree trunks and gazes at the forest, that every day gives him the lumber with which he has forged a future. “When I came to Emprende I felt safe and confident. Thanks to them I am what I am, and I hope to carry on doing better with them. Go to your nearest office, dare to do it, Emprende will support you, take that first step and you will get on”, he recommends to everyone he talks to.■

When he remembers how he started, and what he has achieved, Arturo admits that he feels proud. What he most appreciates is having made a better life for his family.



Arturo collects the timber with his new machinery for loading onto his truck.



One of Arturo's children playing near the logs.



Arturo at his timber transport business, which has paid to give his children a good education.

Strawberries that grow dreams

María is the owner of two plots of land with 5,000 and 10,000 strawberry plants, respectively. Her first crop was so successful that, together with her husband, they became the biggest strawberry producers in their community. She has received nine loans which she has invested in her truck, in farm machinery and seeds.



Scan the QR code and discover the story of María



When María Leviman finished her auditing studies and was starting her career in the financial sector, her father's death led to a change of plans. She inherited two hectares of land in the Araucania region, over 700 km from the capital of Chile, in the middle of an indigenous community. She and her husband, Sergio Castillo, decided to work the land and make a living from growing fruit and vegetables. Sergio sold them in the Pinto de Temuco fair and their high quality won them loyal customers who soon started going directly to the couple's home to buy their produce.

To expand the business, María started growing strawberries. Her first crop was so successful that they became the biggest

“Emprende helped us a lot so that we could invest. Thanks to that we have been able to make a go of it. I am grateful for their trust in us. They lend us the capital so that we can make a sound investment and get a good crop”.

producers in their community. To achieve that, they sought technical advice from several state institutions in order to improve all their planting, irrigation, harvesting and sales procedures.

But their skill as producers was not enough; to grow they needed financing. They heard about Emprende Microfinanzas thanks to a farmer from the indigenous community, who told them that there was an institution in Temuco that helped those on low incomes. They were granted their first loan with the institution in 2008 for USD 400, the first of the nine loans with which María and Sergio repaired their truck and bought machinery and seeds.

“Emprende helped us a lot so that we could invest. Thanks to that we have been able to make a go of it. I am grateful for their trust in us. They lend us the capital so that we can make a sound investment and get a good crop”, she says.

María is the owner of two plots of land with 5,000 and 10,000 strawberry plants, respectively. Her working day is tough, but she doesn't falter. She gets up early, picks the fruit and carefully places it in boxes that her husband then transports in his van at sundown to the market in Temuco. “I love working with strawberries. When I get up and I see my fields, I see that, whatever the weather, ripe fruit have appeared overnight, and I find that very pleasing. In the future I

Name: María Leviman.
Age: 54.
Business: Fruit and vegetable production.
Location: Rucapangue (Chile).
Employees: She works with her husband and has two seasonal workers.
Total loans: Nine, for a total sum of USD 22,000.
Other products and services: Microinsurance.
To highlight: She belongs to her community's indigenous association.



would like to carry on working with Emprende to continue improving my investment, I need to invest more”, she says, as she weaves her way through the lines of strawberries.

She has new projects in sight. She wants to improve their infrastructure and buy products that enable her to raise her crop’s performance, to bring forward the picking date for the fruit so that she can get a better sales price. “In the end, strawberries have become part of my life and I want to carry on perfecting my production continually so as to be able to continue growing, and what better way to do that than with my favorite fruit”, she exclaims, proudly. ■

María has new projects in mind. She wants to acquire the infrastructure and products that will enable her to improve the yield from her crops, bringing forward the date when the strawberries are picked so that she can get a higher sale price.



María and her husband, Sergio Castillo, do the figures so that they can carry on expanding.



María with some of her strawberries on her farm in the Araucania region.

“We are often the only option for rural clients”

In 2011, Marcela Sanhueza became an executive at one of Emprende’s most dynamic branches. She went on to complete her training by studying business administration in order to better perform her role. She enjoys being witness to all her clients’ hard work.

Marcela very much enjoys talking with the entrepreneurs, to whom she will always explain the institution’s unswerving commitment to the client, in supporting programs that enrich their business. She has worked for the entity for nearly eight years and, for her, helping vulnerable microentrepreneurs rewards her efforts handsomely.

She began as a sales assistant and also assessed loans. “When I arrived I felt that I knew very little about microenterprises. Gradually I began to feel more empowered to further the institution’s goal of supporting microentrepreneurs financially, training, advising and guiding them”, she says. In 2011, she became an executive in one of the institution’s most dynamic branches, in the town of Coelemu. “I began to feel that I needed to study business administration in order to have the skills necessary to better support my clients, and thus enable Emprende to carry on growing”, remembers Marcela.

Her working day is divided between the office and visiting entrepreneurs, most of whom are in rural areas. First, she drops her daughter off at school; then she finalizes her schedule for the day, and halfway through the morning she sets off on her route. “Whenever I have to visit a client, whether it is to strengthen the relationship or to keep our network of contacts going, I talk to clients who are looking for an opportunity. This time in the field is the most valuable, because it is when I can find out what microentrepreneurs are doing”, explains Marcela. In the afternoon she takes care of management tasks: client assessments, collections, inputting data into the institution’s network... She is also a member of the Credit Commission, where she shares her experience with the new executives. “Although there is always something to learn from those in the team”, she stresses.

Stories to tell

She has lots of stories to tell about things that happen in Emprende. For example, an entrepreneur who combined her job as an assistant in a pastry store with her own business making cakes at home. She began asking for very small loans to renew her work utensils. Thanks to the institution, in which she has continued to put her trust, she is now an independent woman, owner of her own pastry store, where she employs three people. A job she combines with being the head of the household and mother of two daughters.

For Marcela every microentrepreneur is unique. She particularly likes dealing with farming clients: “What our farmers most

need is to receive training so that they can equip themselves. We are often the only option for rural clients”. She enjoys being part of the process, from production through to marketing the products, and above all witnessing the efforts made by each of them: “They are the salt of the earth”, she believes. ■

“The time in the field is the most valuable, because it is when I can find out what microentrepreneurs are doing”.



Marcela in her office in Coelemu.

Microinsurance in Chile

With the aim of extending the range of financial products in Chile, a survey was carried out that confirmed that 70% of the clients interviewed would be interested in taking out insurance cover for healthcare, life, burglary and death. So Emprende, Fondo Esperanza and the BBVA Microfinance Foundation worked together to help insurers understand the low-income client profile.

An unmet need in a more developed market

Chile is sometimes categorized as a developed market or, rather, one where microfinance plays a less prominent role. Nevertheless, it is a country where microinsurance cover is lacking for clients classified as *vulnerable*. According to research carried out by MicroInsurance Network, only 7% (in 2013) of the population had cover⁽¹⁾, in a country where the low-income population accounts for 11.7% of the whole, ie. two million people (CASEN 2015)⁽²⁾.

In particular, there is a high need to adapt the product to the low-income client's needs in terms of premiums⁽³⁾, since potential insurance clients are unlikely to have easy access to a policy, given their low net incomes (an average of USD 6 and USD 13 a day respectively in the case of Fondo Esperanza and Emprende clients)⁽⁴⁾. Furthermore, given that insurance companies do not know how to insure informal businesses, it is extremely helpful to offer this product in cooperation with microfinance institutions.

(a) Data on clients current as of 12.31.2016.

A 2013 survey in Fondo Esperanza confirmed that 70% of clients would be interested in taking out an insurance policy, and of those who would not, only 11.5% are already insured, while 49% rule it out on cost grounds or from lack of interest (cost, coverage, etc.).

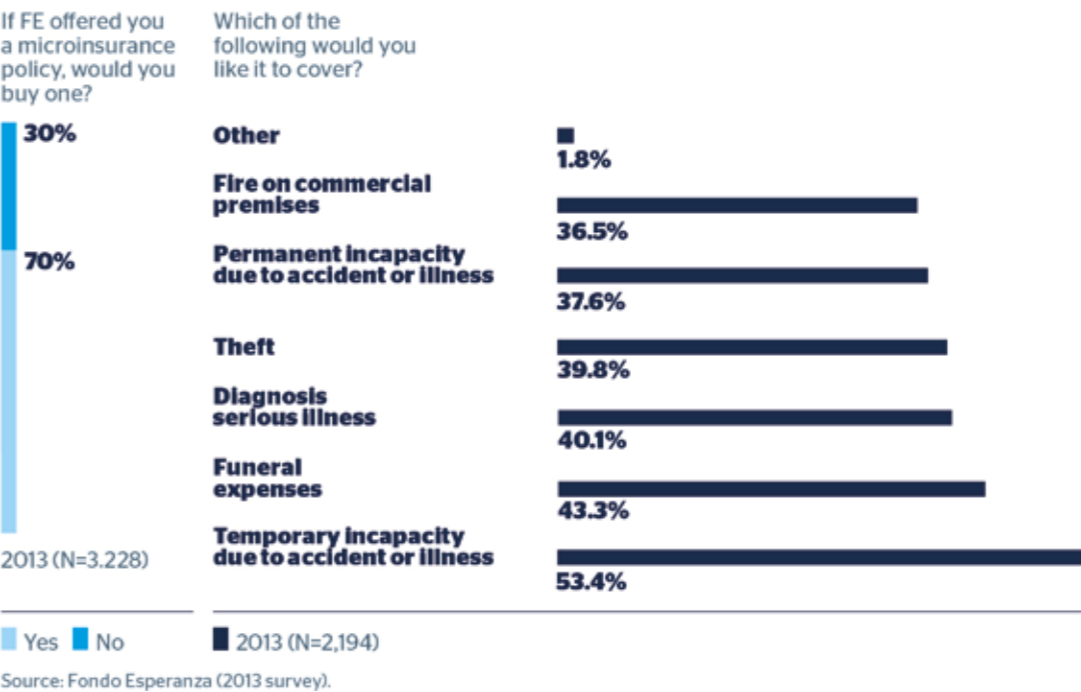
In line with expectations, clients would be interested in covering, in this order, four major areas: healthcare, life, theft and death.

Potential microinsurance clients' income levels (a)

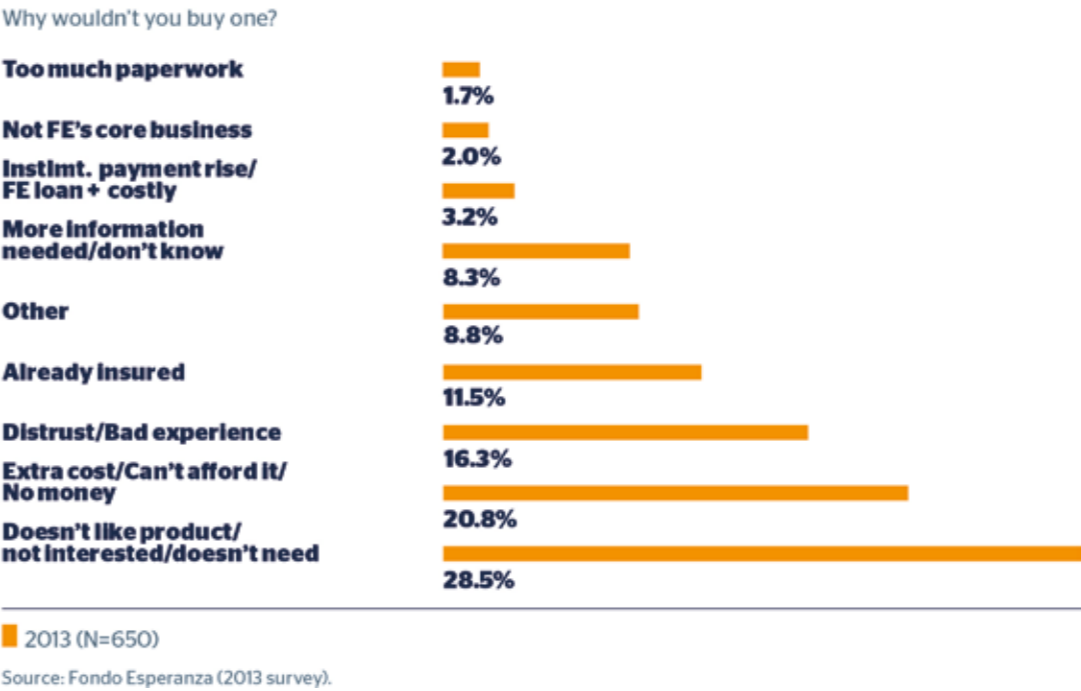
	FE	EM	Total
N° current clients	103,054	11,011	114,065
Avg. income/day (USD)	5.7	12.9	
N° ext. poor & poor clients	37,969	449	38,418
Avg. income/day (USD)	2	2.9	

Source: Fondo Esperanza, Emprende. BBVAMF analysis.

Results of the microinsurance survey in Fondo Esperanza (b)



Results of the microinsurance survey in Fondo Esperanza (c)



A product tailored to the client

Work began on researching in more depth the demand for insurance, with a survey and several focus groups. During development, the project had to bear three considerations in mind:

- How the various players would adapt to the microinsurance market
- Reviewing the product types
- Identifying the characteristics of the microfinance institutions

Adaptation by the various players to the microinsurance market

Active steps were taken to familiarize the insurer, the broker and clients with the particular demands of the microinsurance market. On the one hand, neither the insurer nor the broker were accustomed to

working on a regular basis with the micro-finance client, so a clear understanding of the realities and the risks involved had to be reached. On the other, the client was not used to operating in the traditional banking environment, in which financial products are calculated in Development Units [Unidades de Fomento, UF]. In Chile, micro-finance institutions make the exchange to the peso automatically, to make it easier for clients to make transactions in the local currency, so it is essential that the client has better financial information if they are fully to understand the product.

Reviewing the product types

The main types of microinsurance products and client demand in the market were reviewed, assigning a priority to each for the institutions to consider:

Characteristics of the microfinance institutions

It was important that the microinsurance offering is aligned with the institution’s integrated value proposal. To this end, its features had to be borne in mind:

- Small loans: the average loan is for USD 1,480 in Emprende and USD 698 in Fondo Esperanza⁽⁵⁾.
- Short durations: the average term varies by methodology. For Fondo Esperanza group lending, the average term is about 132 days, while for individual credits the terms are longer, 424 days in the case of Emprende⁽⁶⁾.
- Process alignment: unifying credit and microinsurance processes has been key in achieving greater operational efficiency. This has been a decisive factor in Emprende, because agile procedures were set up that do not trigger additional transactional costs either for the client or for the officer.
- Microinsurance training: microinsurance is an intangible product requiring specialist training to generate trust, both for clients and for officers:

- Clients: The training was adapted to the institution’s credit methodology, so in Emprende (individual methodology) training focused on the relationship with the officer, and in Fondo Esperanza (mainly group methodology), the group sessions were used to provide specific training on microinsurance⁽⁷⁾, building up the relationship step by step, and the product offering was made once this training had been completed. These procedural differences are a response to the fact that Fondo Esperanza’s

Active steps were taken to familiarize the insurer, the broker and clients with low-income clients, as well as in training both clients and officers.

insurance customer linkage (compared with all clients) is, comparatively, lower than in Emprende.

- Officers: Given that no institution had prior experience in the provision of voluntary insurance to their clients, training the officers was a critical feature of the project, with support being given to them during their learning curve. It was essential that the officers understood the products fully and were convinced of their usefulness to their clients.

Once all these elements had been analyzed and defined, the following life and voluntary protection product was drawn up, together with the insurer. Selling began in November 2014, and there has been wide demand for it from both institutions’ clients.

These results prove that clients are interested in the product on offer and that it is aligned with the needs identified.

Main types of microinsurance products (d)

Products	Subclasses	Assessment	Priority
Life & protection	Temporary life insurance, death, accidents, invalidity	Preferred by the client and easy to implement for the institutions, mainly because it is easy to understand the risks being covered, the management procedures are straightforward, there are a limited number of people involved and the premiums are low.	1
Life and credit	Life protection (combined with microcredit)	Preferred by the institutions because of its direct relationship with credit and more efficient management of the activity-related risk.	2
Assets	Home/business, commercial assets	Preferred by clients, particularly cover for fire and theft, but entails some difficulties, mainly in understanding the cover provided and the management processes.	3
Health	Hospitalización, asistencia médica general, enfermedades graves	Preferred by the client, but difficult for the institutions to implement. Requires (comparatively) greater resources for implementation and has many operating obstacles, among them: identifying the country’s welfare and non-welfare provision, reviewing medical service quality, and the need to find appropriate partnerships.	4
Agriculture	Insurance on the harvest, livestock & indicator-based covers	Clients with farming businesses make up only 2% of the total ⁽⁸⁾ , so this is not seen as a priority product.	-

(d) Clients current as of 09.30.2016. Fondo Esperanza has no clients working in agriculture, whereas Emprende has about 2,000.

A product that is equally attractive across all segments

Emprende has higher take-up rates among young clients (under 30 years old), where nearly five out of every ten young people decide to take out microinsurance, and among *poor* clients. These trends are not appreciable in Fondo Esperanza, or are much less pronounced; in particular, *poor* people take out slightly fewer insurance policies. In general, across both institutions, there is a trend in favor of microinsurance, whatever the gender,

educational attainment, vulnerability segment or activity sector.

It is essential that work continues on adapting financial and sector-specific language so that it can be clearly understood by clients. The challenges for the future are centered around continuing to focus on improving clients' insurance "culture" and the training of officers, both of them key elements in the provision of responsible microfinance products. ■

Life insurance and protection (e)

Cover	Capital insured	Monthly premium
Accidental death	UF 50	UF 0.0323
Accidental total & permanent incapacity	CLP 1,310,540	
Funeral expenses	UF 20	CLP 847
	CLP 524,216	

Source: Fondo Esperanza, Emprende. BBVAMF analysis.

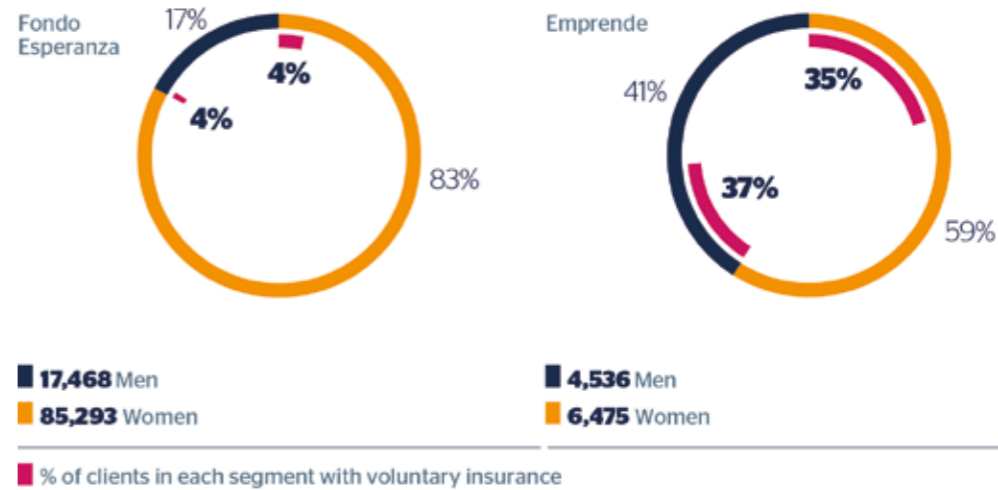
Insurance policies taken out (accumulated) (f)



Source: Fondo Esperanza, Emprende. BBVAMF analysis.

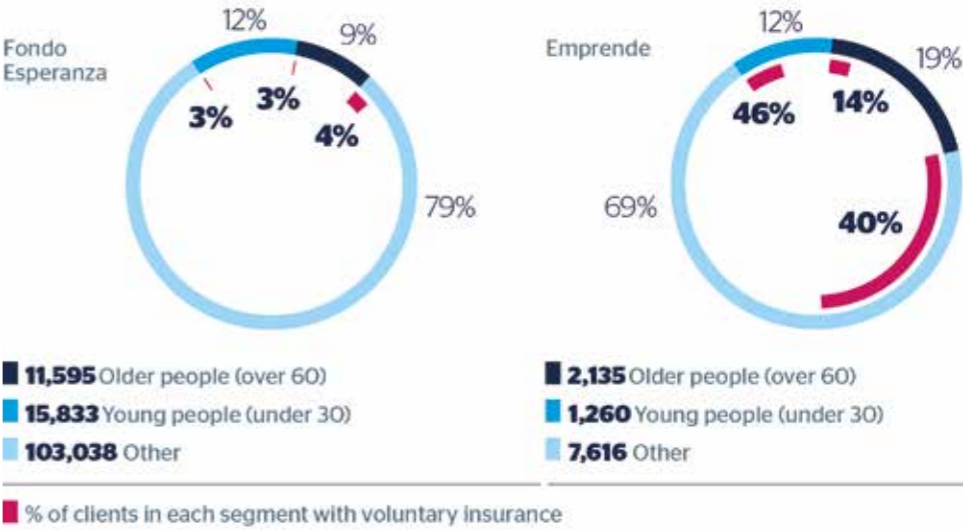
(e) Reference value based on the UF as of 09.01.2016 (CLP 26,210).
(f) Number of people that take out an insurance product.

Insurance linkage by profile - Gender (g)



Source: Fondo Esperanza, Emprende. BBVAMF analysis.

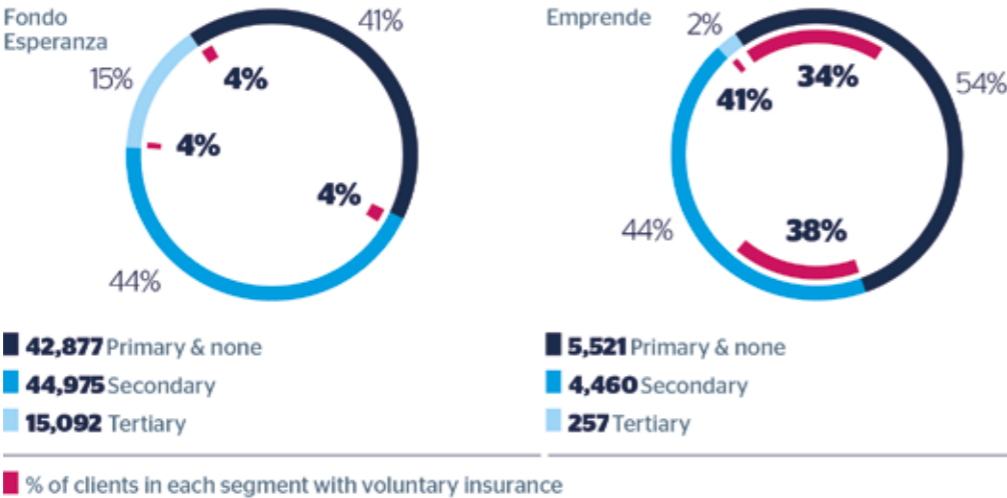
Insurance linkage by profile - Age (h)



(g & h) Clients current as of September 30, 2016 classified by profiles. The percentage of the inner circle shows the number of clients in each segment that has insurance. For example, 35% of Emprende women clients have insurance.

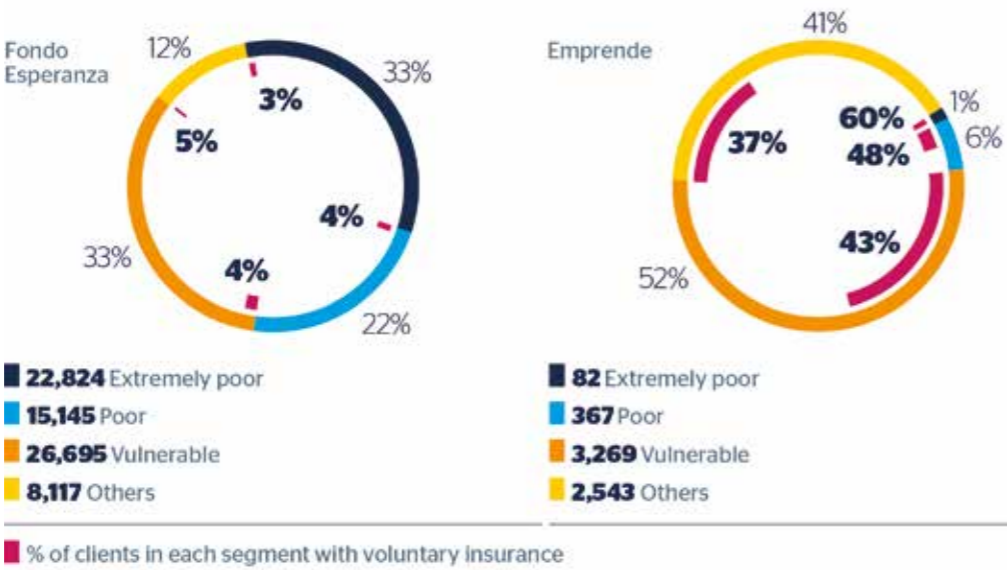
Source: Fondo Esperanza, Emprende. BBVAMF analysis.

Insurance linkage by profile - Education (i)



Source: Fondo Esperanza, Emprise. BBVAMF analysis.

Insurance linkage by profile- Vulnerability (j)

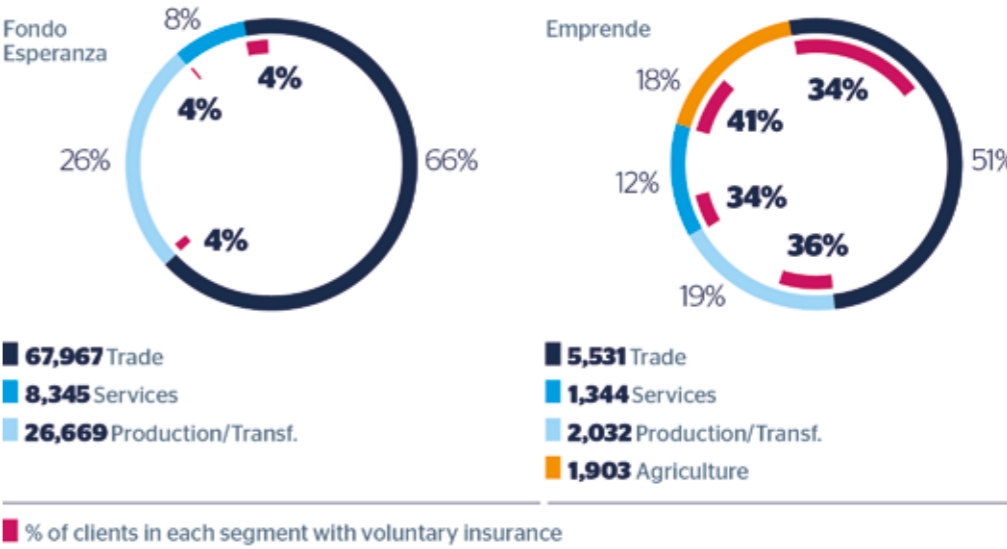


Source: Fondo Esperanza, Emprise. BBVAMF analysis.

(i & j) Clients current as of September 30, 2016 classified by profiles. The percentage of the inner circle shows the number of clients in each segment that has insurance. For example, 34% of Emprise clients that have primary education at best, have voluntary insurance. The degree of the client's economic vulnerability has been calculated using the update nearest in time to the 09.30.2016 close (the latest available). Source: Fondo Esperanza and Emprise, BBVAMF analysis.



Insurance linkage by profile- Sector (k)



Source: Fondo Esperanza, Emprise. BBVAMF analysis.

Notes (1) In 2013, 6.96% of Chile's population, 1.22 million people, had voluntary insurance cover (accident, health, life, property) vs. 14% in Colombia, 10% in Peru, 1.3% in Panama, and 2.5% in the Dominican Republic (Microinsurance Network; http://www.microinsurancenet.org/sites/default/files/Country%20profile_Chile_jpegs.pdf) (2) http://observatorio.ministeriodesarrollosocial.gob.cl/casen-multidimensional/casen/docs/CASEN_2015_Ampliando_la_mirada_sobre_la_pobreza_desigualdad.pdf (3) The premium is the cost of the insurance, the installment that an insured party or policy holder must pay to an insurance company to transfer the risk within the cover being provided by the latter to its clients for a specified period of time. (4) Average daily *per capita* net income of clients active as of 09.30.2016. (5) Average disbursement per transaction between January and September 2016. (6) The average term of transactions initiated in 2016. (7) Although Fondo Esperanza also trains the officer.

(k) Clients current as of September 30, 2016 classified by profiles. The percentage of the inner circle shows the number of clients in each segment that has insurance.

Timid growth but less poverty

Weak domestic demand continues to account for Chile's lower growth, which after two years has brought inflation back within the central bank's range. Around 1.8 million people have escaped poverty in recent year, and 3.8 million have been included in the financial system.

GDP closed 2016⁽¹⁾ at 1.5%, in an environment of great uncertainty and pessimism in the confidence indicators. Domestic demand edged up 1.2%, underpinned by consumption which grew by 2.9%, mainly in public consumption, which has shot up by 6.6%, whilst household consumption, supported by durable goods, expanded by 2.1%. Investment, meanwhile, has only grown by 0.9%, due to the 0.2% contraction in building projects, although machinery and equipment expanded by 3.2%.

On the supply side, the sectors driving growth are: *personal services*, posting an uptick of 6%; *financial services*, with a rise of 3.5%; *trade*, up by 4.1%; *transport*, which rose by 4.4%; and *electricity, gas and water*, which have expanded by 3.1%.

Taken together, these sectors make up 38% of total GDP, which has offset the 2.8% fall in *mining*, the dip of 0.8% in *manufacturing* and of 0.1% in *construction*. These last sectors account for 32% of total GDP.

The deterioration in the terms of trade in 2015 generated a nominal depreciation in the exchange rate of 14%, which has

Domestic demand has posted a rise of 1.2%, underpinned by consumption, which has grown by 2.9%.

reversed in 2016, thanks to the recovery of the copper price, which showed a nominal appreciation of 6%. As regards inflation, after two years of breaching the upper limit of the range set by the central bank, this trend has been corrected. Inflation closed 2016 at 2.7%, as a result of the adjustment in goods linked to the exchange rate, as the Chilean peso appreciated, correcting the rise occurring in 2015.

Inflation in services has fallen more slowly, bearing in mind its high degree of indexation. Lowered domestic momentum has been a factor which has been shown in excess capacity in goods and *services* production. In this scenario, the central bank has held the monetary policy rate at 3.5% throughout the year.

The other factor that has helped the improvement in the terms of trade is a lower current account deficit, 40 b.p. better in GDP terms, closing the year at 1.6%.

In urban zones, poverty stands at 10.2%, which is 11.9 p.p. less than in rural areas, where poverty afflicts 22.1% of the population.

Labor market

The unemployment rate⁽²⁾ stands at 6.2%, up by 10 b.p. on twelve months earlier. The labor force participation rate has risen by 1.7%, while occupation has grown by 1.6%. The productive sectors with the biggest increases in the number of people employed were *trade* (97,680 new jobs) and *agriculture and fisheries* (37,300 more jobs). This contrasts with cuts in *mining* (36,700 jobs) and in *construction* (28,070 jobs).

The percentage of waged workers with a contract was 87%, a 29 b.p. drop from the year before. Meanwhile, the number of workers with fixed term contracts was 27%. 21% of waged workers are subcontracted, 1.25 p.p. down on the year before. The increase in the number of people with employment is due, above all, to the increase in the number of self-employed (87,800 positions), followed by waged workers, adding another 31,900 jobs. The number of people in housekeeping services, on the other hand, showed the sharpest drop (down by 15,300 jobs).

The regions with the highest unemployment are Antofagasta (8.8%), Coquimbo (8.2%) and Atacama (7.2%). The lowest rates of unemployment are to be found in Los Lagos (2%), Aysén (2.8%) and Magallanes (4.1%). Some of the regions where unemployment has risen most in the last year are the three which already suffered the

Real GDP growth



Source: Chile central bank. BBVAMF Research estimate.

Chile is one of the countries with the highest level of financial inclusion and greatest penetration in the region.

highest rates: Atacama, Antofagasta and Coquimbo, with increases of 3 p.p., 2.9 p.p. and 1.6 p.p, respectively. Antofagasta and Valparaíso have the highest rates of female unemployment, while Atacama, Coquimbo and Araucanía post the largest numbers of youth unemployment.

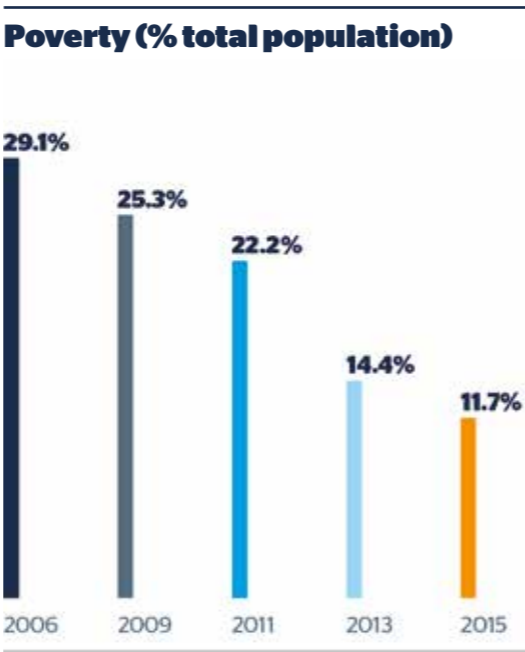
Poverty and inequality

In Chile around 2.05 million people find themselves on or below the poverty line, representing 11.7% of the country’s population; of these, 620,000 are in extreme poverty⁽³⁾. In the last six years, the poverty rate has fallen by 13.6 p.p., ie. over this period about 1.8 million people have escaped poverty.

Income growth growth accounts for 61% of the drop in poverty, with redistribution responsible for the remaining 39%. In urban areas poverty stands at 10.2%, with a gap of 11.9 p.p. between rural areas, where poverty affects 22.1% of the population.

18.3% of the indigenous population lives on or under the poverty line, whereas the ratio for other groups is 11% on average. 70% of households in poverty contain children and adolescents, 40% are single-parent, and in 49% the head of the household is a woman.

The poorest regions are: Araucanía, Maule and Biobío, with poverty rates of 23.6%, 18.7% and 17.6%, respectively.



Source: Casen survey, Ministry of Social Development.

Financial inclusion

Chile is one of the countries with the highest rates of financial inclusion and the best rate of progress⁽⁴⁾ in the region, as measured by having a bank account, given that 63% of adults have access to the financial system; this is a 21.1 p.p. improvement on the previous assessment. Around 11.5 million adults are included in the financial system, although another 6.7 million adults are excluded. In the last three years 3.8 million adults have joined the financial system.

In rural areas 61% of adults say they have an account in the financial system, which is a 24.1 p.p. improvement on the previous measurement. 68% of the adults with higher incomes (60% *richest*) have access to the financial system, whereas in the segments with lower income (40% *poorest*) only 56% have access to the system, making the gap between them 12 p.p.

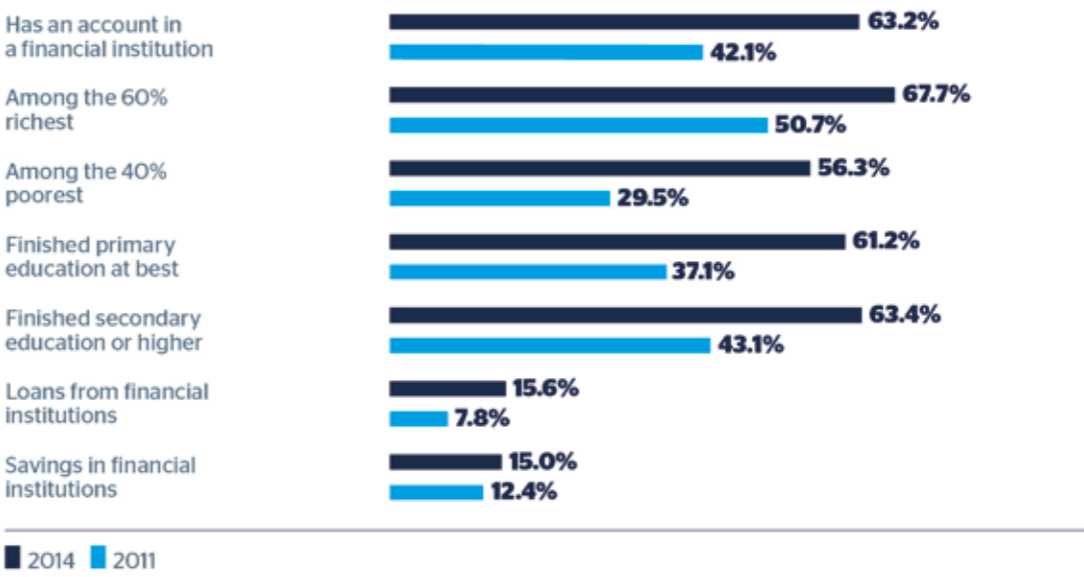
63% of adults over 25 say they have an account in the financial system, a ratio that has improved by 20.3 p.p. since 2011. Because of its established welfare systems, Chile is one of the countries in the region with the highest proportion of adults who have accounts in the financial system.

In terms of products, 36% said they had made some savings the previous year, but only 16% put the money in formal financial institutions. 6% spent it on starting up, running or expanding a commercial

venture. 29% of adults have applied for a loan in the last year, but only 16% did so through a formal financial institution, and only 3% used it to operate, start or expand their commercial venture.

In terms of use, 74% of those possessing an account have made some kind of movement during the previous year. 37% have made one or two movements in their accounts every month, whereas only 31% of adults have made more than three transactions a month.■

Financial inclusion (% adults)



Source: World Bank Global Findex.

Notes (1) November 2016. (2) Ministry of Work & Social Welfare. (3) Casen survey, 2015. Ministry of Social Development. (4) Global financial inclusion, Global Findex.