

Fondo Esperanza **Chile**

Social Performance
Report 2016



**Measuring
what really
matters**

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“Where there is a tree to plant,
you be the one. Where there is
a mistake to undo, let it be you.
Where there is a task that
everyone avoids, accept it.
You be the one to remove
the rock from the field”.

The Pleasure of Serving
Gabriela Mistral

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Improving lives

Fondo Esperanza has been encouraging entrepreneurship in Chile's vulnerable population groups for 14 years. It is the biggest community banking microfinance institution in the country, providing financial services to over 110,000 entrepreneurs. It also runs a number of programs for prisoners in several penitentiary centers.

Fondo Esperanza SpA (Fondo Esperanza) is a development institution that offers microfinance services with the mission of supporting vulnerable entrepreneurs. Its *School for Entrepreneurs* and support networks also provide training to improve the standards of living of entrepreneurs, those of their families and of their communities.

Fondo Esperanza was awarded the *2016 Financial Inclusion Prize* by the *Superintendencia de Bancos e Instituciones Financieras* (SBIF, the banking and financial institutions authority) and the University of Chile. The award was presented by the President of Chile, Michelle Bachelet, for its innovative program *Excluded Segments*. This program started in 2013, when 17 prisoners in Osorno penitentiary decided to put their trust in Fondo Esperanza, in other prison

inmates and in their manual skills to set up an enterprise.

This program gives them the opportunity to of change their future, to bring in income to their families and to show that even though they are serving a sentence, they are capable of re-joining society and making their way in life. The drive shown by these entrepreneurs and the positive outcomes have meant the program has been rolled out in other penitentiaries. In 2015 it was also expanded to include the homeless. The *Excluded Segments* program is an example of Fondo Esperanza's mission to reach out to vulnerable groups who do not have access to the formal banking system, so that they can improve their lives and those of people close to them. The entity won third prize in the *Contribution to Financial Inclusion* category,

an award that promotes education and financial education throughout the country.

The Roca brothers, three Spanish chefs who are well-known internationally and are Goodwill Ambassadors for the *United Nations Development Program* (UNDP), presented *Entrepreneurs à la carte*. This book, published by Fondo Esperanza, tells the stories of its leading characters through their recipes, how they have succeeded in forging a future and bringing up their families thanks to their efforts in the kitchen and their hard work. The publication contains 42 recipes that use the ingredients of popular Chilean cuisine, both mixed and indigenous, highlighting Chile's identity and culinary tradition.

Fondo Esperanza signed an agreement in November 2016 to take part in a program run by Chile's Ministry of Economy, De-

velopment & Tourism, through its Technical Cooperation Service (Sercotec) the *Financial Services in Business Development Centers Program*. That same month the entity signed another agreement, with Óptica Local, so that entrepreneurs from community banks and their families could have free eye checks and get discounts when buying prescription glasses.

Fondo Esperanza develops entrepreneurial activity among Chile's vulnerable population segments. It has been running for 14 years and is the biggest community banking microfinance institution in the country. With 53 branches serving over 110,000 entrepreneurs, it has a footprint in 248 districts stretching from Arica to Chiloé. ■

The *Excluded Segments* program represents a chance for 17 prisoners to change their futures, to bring in income for their families and to show that, even though they are serving a sentence, they are capable of re-joining society and making their way in life.

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)

64,668,275

Amount disbursed in 2016 (USD)

196,807,915

Nº of disbursements in 2016

270,150

Average disbursement in 2016 (USD)

729

Nº of employees

560

Nº of offices

53

People who have received financial
education

110,136

Management team and board

Management team

Mario Pavón
General Manager

Karina Gómez
National Office Manager

Consuelo Herreros
HR Manager

Catalina Valenzuela
Administration
& Finance Manager

Pilar Egaña
Communications Manager

Pablo González
Risk Manager

Zunilda Vergara
Operations
& Systems Manager

Daniela Olfos
Development
& Service Manager

Oliver López
Program Manager

Fernando Jara
Audit Manager

Board

Ramón Feijóo
President

Luciano Magnet
Vice-President

Jorge Cruz
Member

Javier M. Flores
Member

Andrés Silva
Member

Cristian Barros
Member

Juan Cristóbal
Member

Measuring

90% of the clients served in 2016 by Fondo Esperanza are classified as *vulnerable*, and 77% are women. A high percentage are entrepreneurs with small businesses and low net incomes, but with high growth rates: both sales and net incomes are expanding rapidly (sales by 33%, net incomes by 54%). The indicators reflect that *poverty* and *vulnerability* are steadily being undermined.

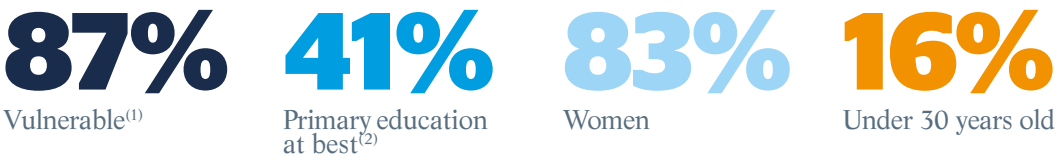


Total clients
110,817
New credit clients
47,602

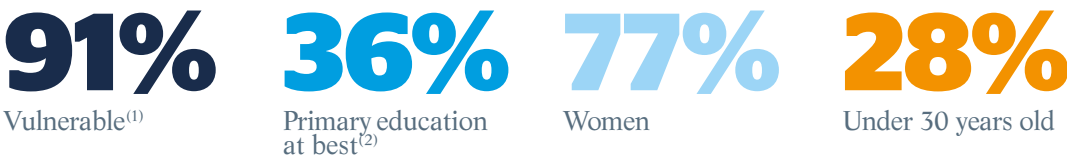
(1) According to Chile's official poverty line, traditional methodology. Source: Ministry of Social Development. Household income *per capita* resulting from the client's microenterprise's net income. Those clients whose *per capita* income is above the poverty line but below the threshold obtained from multiplying this figure by 3 are classified within the vulnerable segment.

(2) Clients with primary education at best, as proportion of all credit clients.

Total credit clients as of Dec 31, 2016



New credit clients 2016



Our clients and our scale

Fondo Esperanza continues with its clear mission to provide financial access to *vulnerable* clients: 87% of its clients have net incomes that are less than three times the poverty line.

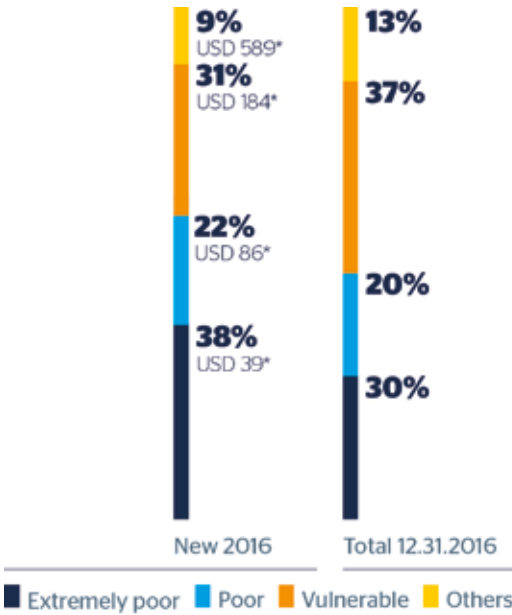


91% of new clients in 2016 live on USD 3.3 per person/day from their microenterprises, while 60%, classified as *poor* get by on USD 1.9 per person/day.

- In a context of low economic growth over the last three years (GDP grew by 1.5% in 2016), Fondo Esperanza is staying firm to its commitment to serve the most vulnerable segments, and has managed to sign up 1.7% more clients than in 2015, of whom 90.6% are classified as *vulnerable*.

(1) According to Chile's official poverty line, traditional methodology (distinguishing between rural and urban environments). Source: Ministry of Social Development. Household income *per capita* resulting from the client's micro-enterprise's net income. Those clients whose *per capita* income is above the poverty line but below the threshold obtained from multiplying this figure by three are classified within the vulnerable segment.

Clients' economic vulnerability (1)



*Monthly net income per capita.
Source: Fondo Esperanza, BBVAMF calculations.

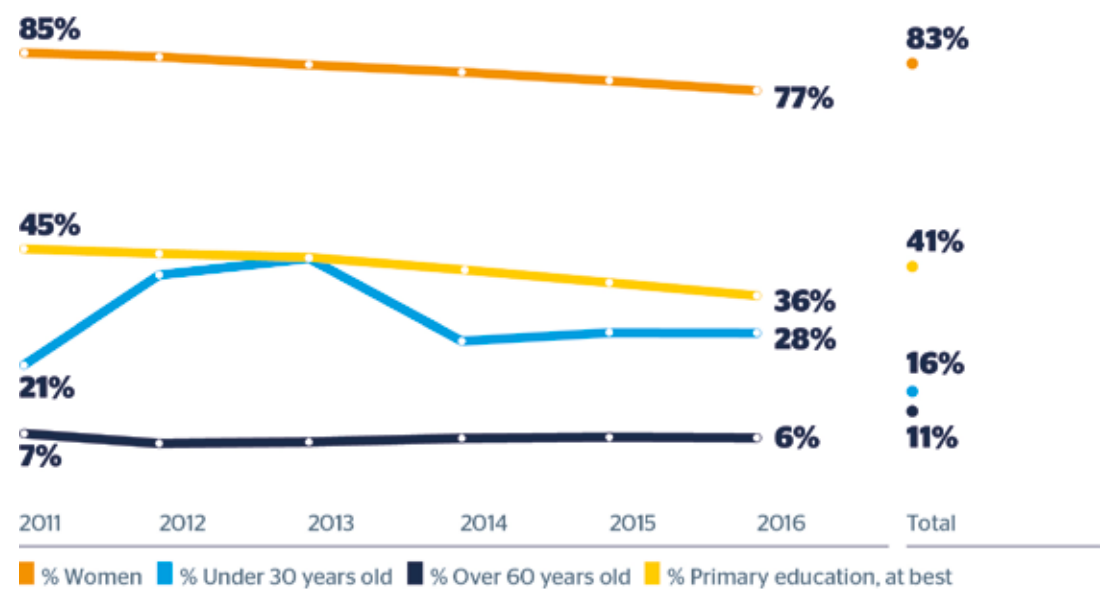
New clients (without previous loans) signed up over the year (2)



Source: Fondo Esperanza, BBVAMF calculations.

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

Profile of our clients (3)



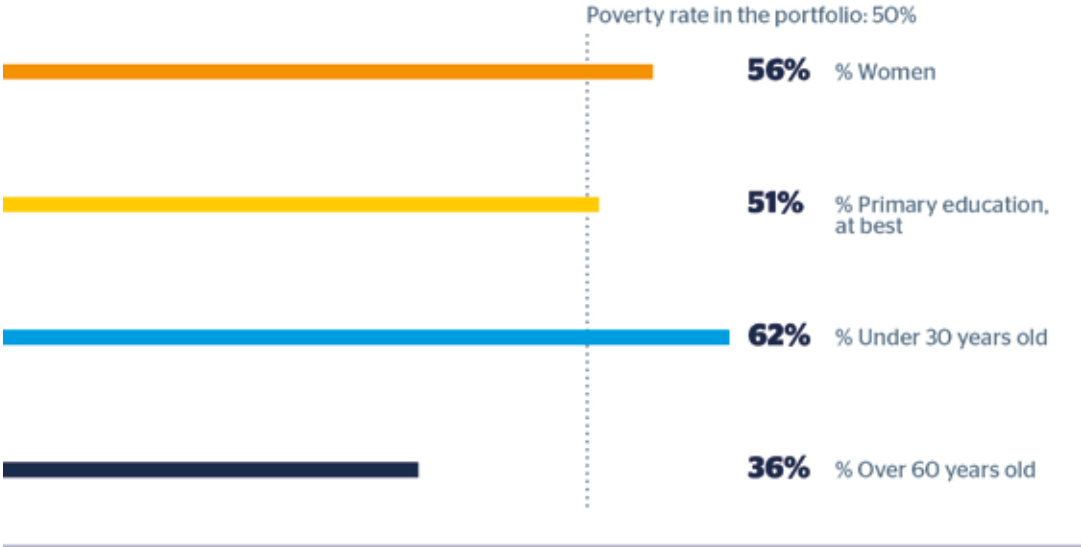
Source: Fondo Esperanza, BBVAMF calculations.

Women (56% of whom are classified as poor), represent 77% of new clients served. Fondo Esperanza has the highest proportion of women in its portfolio (83%) of all the institutions in the Group.

- Those with no education beyond primary also have a high degree of vulnerability (51% live below the poverty line). This category accounts for 36% of new clients.
- Because their businesses are small, new clients' average monthly sales are low, although they have grown in recent years. Over time, the average first disbursement to new clients has grown at a similar rate to their sales, so the weight of the payment installment over sales has remained stable.

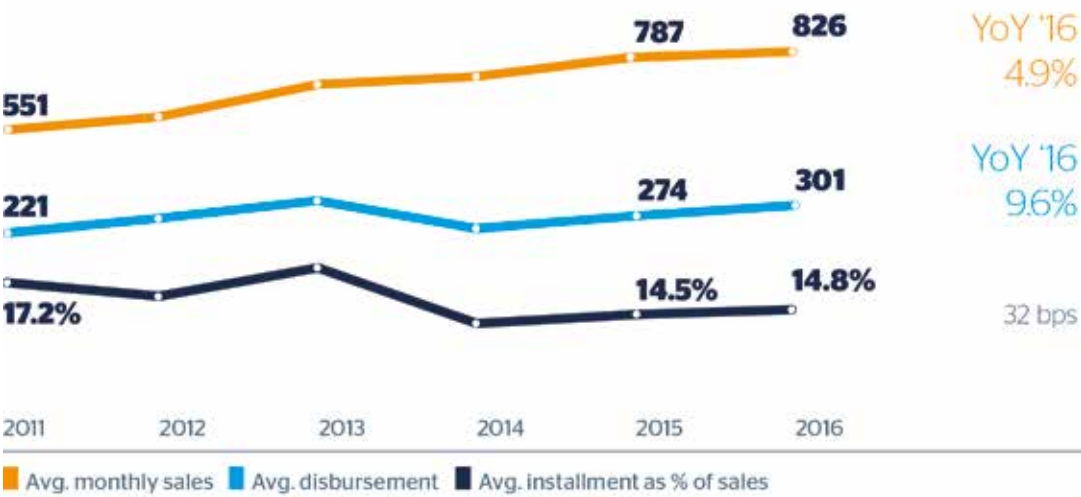
(3) New clients (without previous loans) signed up over the year. Total represents the entire portfolio current as of 12.31.2016.

Poverty profile (4)



Source: Fondo Esperanza, BBVAMF calculations.

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



Source: Fondo Esperanza, BBVAMF calculations.

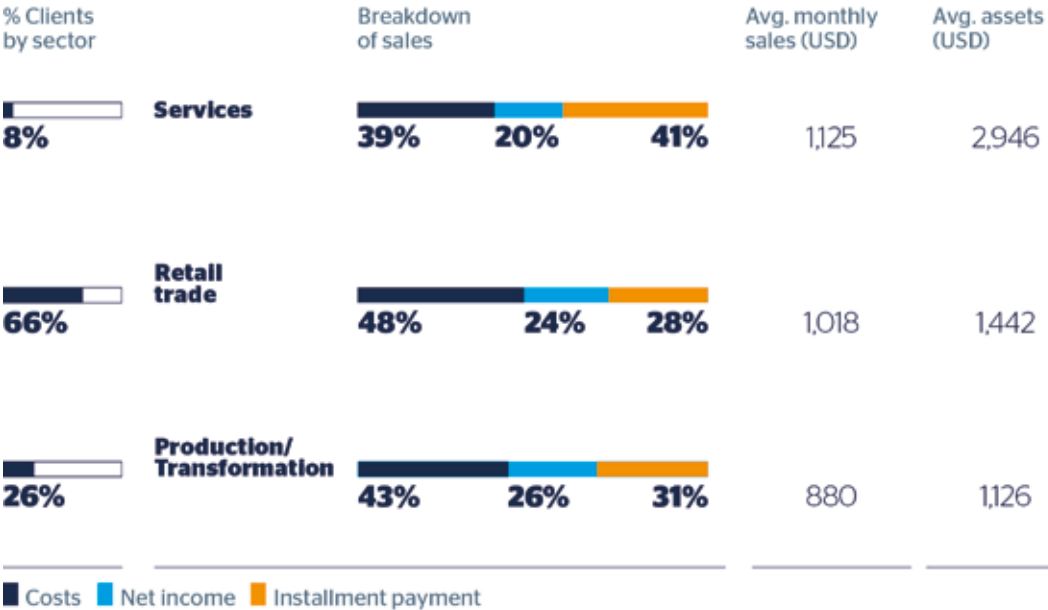
(4) Clients current as of 12.31.2016
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

Our clients' businesses

Due to the focus on the vulnerable, targeted clients' activities require low initial investments and limited educational and technical requirements, and therefore operate principally in the *trade* sector.



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



(6) Clients current as of 12.31.2016.

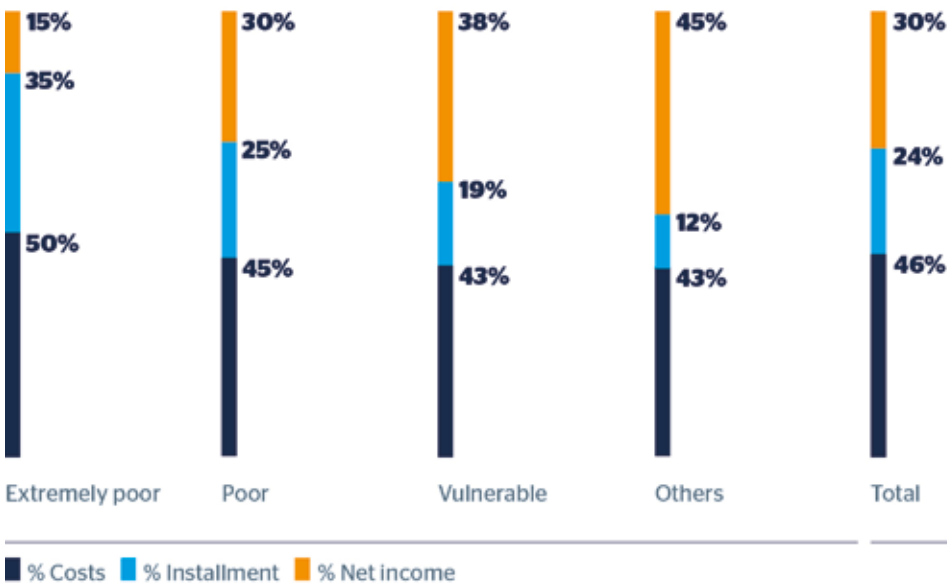
Source: Fondo Esperanza, BBVAMF calculations.

- Given the vulnerability of Fondo Esperanza's microentrepreneurs, most of them work in *retail trade* and, to a lesser degree, in *production/transformation* (manipulation of foodstuffs, textile manufacturing, handcrafts and such like). The MFI's sign-up rate of clients in these sectors has remained very stable.
- The *service* sector enjoys the highest margins (41% of net income over sales after paying the loan installment), while *trade* is the segment with the lowest margins (28%) in line with the trends in other Group institutions.
- Most Fondo Esperanza clients work in activities that require low levels of initial investment and little training or skills.

For the client base as a whole, net income levels after paying the loan installment remain at 30%.

- Fondo Esperanza's deep involvement has translated into serving very small businesses and originating back-to-back short-term loans, which has an impact on the weight of the payment installment.
- As the enterprises become less vulnerable (generally as they get bigger) they succeed in making their businesses more efficient and in generating high net incomes against sales: costs account for 50% of sales for the *extremely poor*, and fall to 43% for *others*.

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



(7) Clients current as of 12.31.2016.

Source: Fondo Esperanza, BBVAMF calculations.

Our clients' development

The small size of clients' enterprises means that inevitably efficiencies are not high, but they do have the capacity to generate high levels of growth in percentage terms.



- Fondo Esperanza is above all a supplier of group lending (community banking). As such, its loans tend to be shorter term: clients will have renewed a loan several times by the time they have been with the institution for a year. For this reason, its retention levels are lower than those of other institutions: after two years, the average is 31%.
- 75% of clients access a second loan with Fondo Esperanza; this indicator is higher than in other Group institutions precisely because of the shorter loan terms.
- On average, 28% of clients have taken out nine or more loans with the institution.

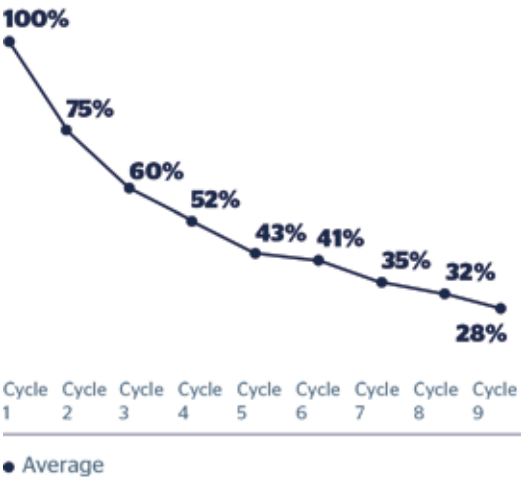
(8) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (by cohort) (8)



Source: Fondo Esperanza, BBVAMF calculations.

Credit client recurrence (9)



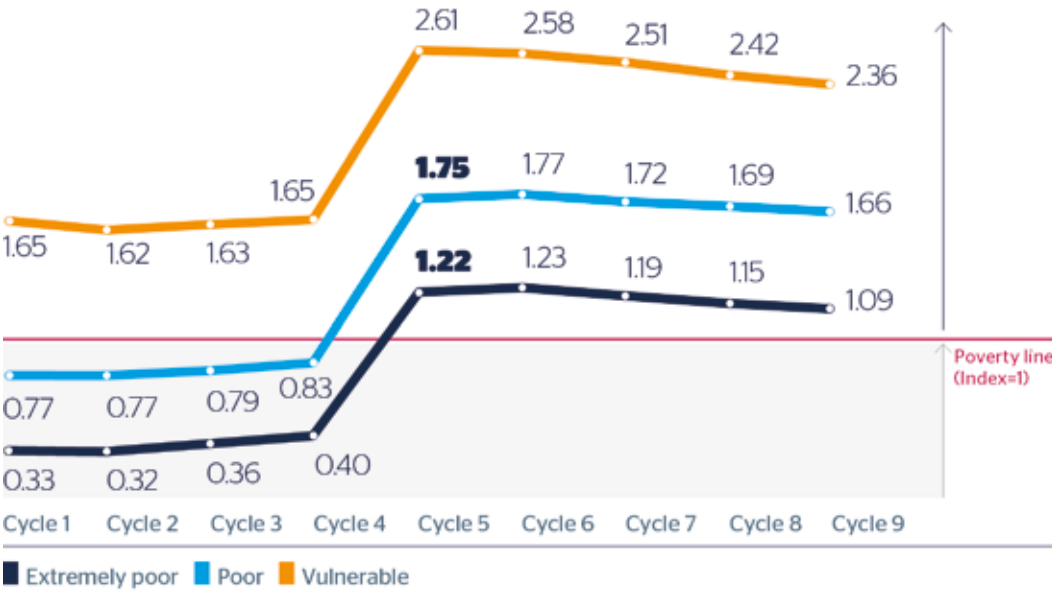
Source: Fondo Esperanza, BBVAMF calculations.

- In Fondo Esperanza, economic data about entrepreneurs is only updated after the client's fourth or fifth loan (after they have been with the bank for about a year and a half), so this is the moment when the clients' gains become visible.
- After this period, we can see how, on average, clients' *per capita* net incomes rise. Clients that were classified at the outset as *poor* or *extremely poor* break through the poverty line.
- Clients who were initially classified as *vulnerable* have shortened the distance from the "ceiling" of *vulnerability* (3 times the poverty line income figure).

(9) 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 1 and 2 is 161 days, between cycle 2 and 3 is 155 days; between cycle 3 and 4 is 157 days, between cycle 4 and 5 is 153 days, between cycle 5 and 6 is 152 days, between cycle 6 and 7 is 150 days, between cycle 7 and 8 is 294 days, and between cycle 8 and 9 is 290 days.

(10) 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 rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of 1 when it is the same as the poverty line.

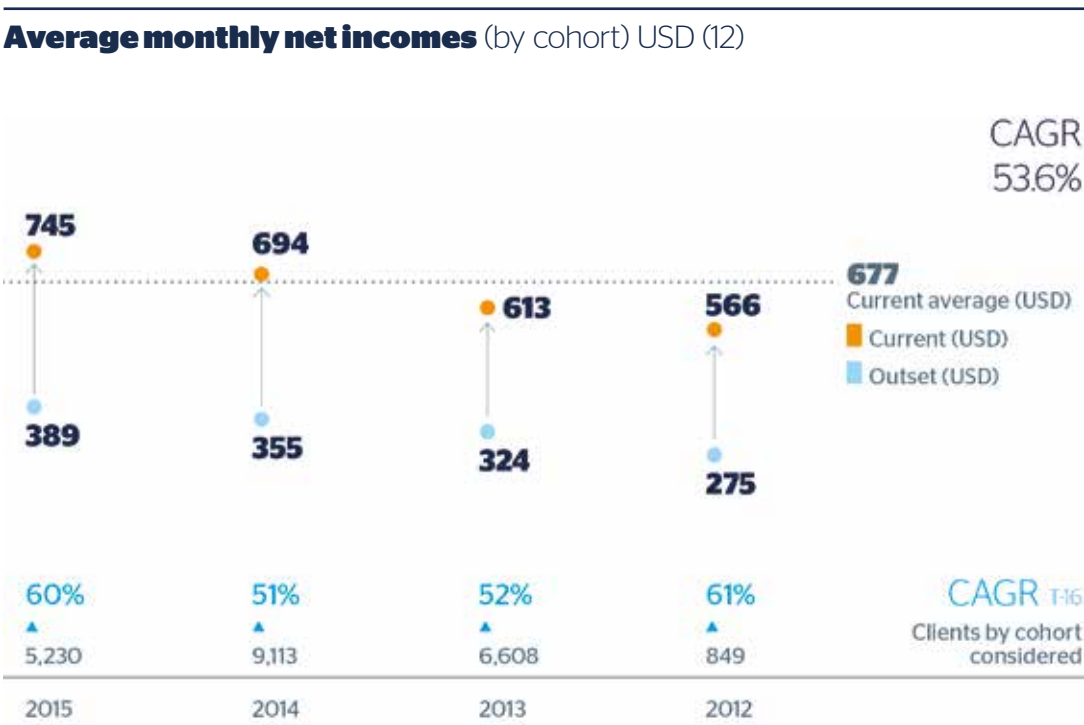
Per capita net income relative to poverty line (10)



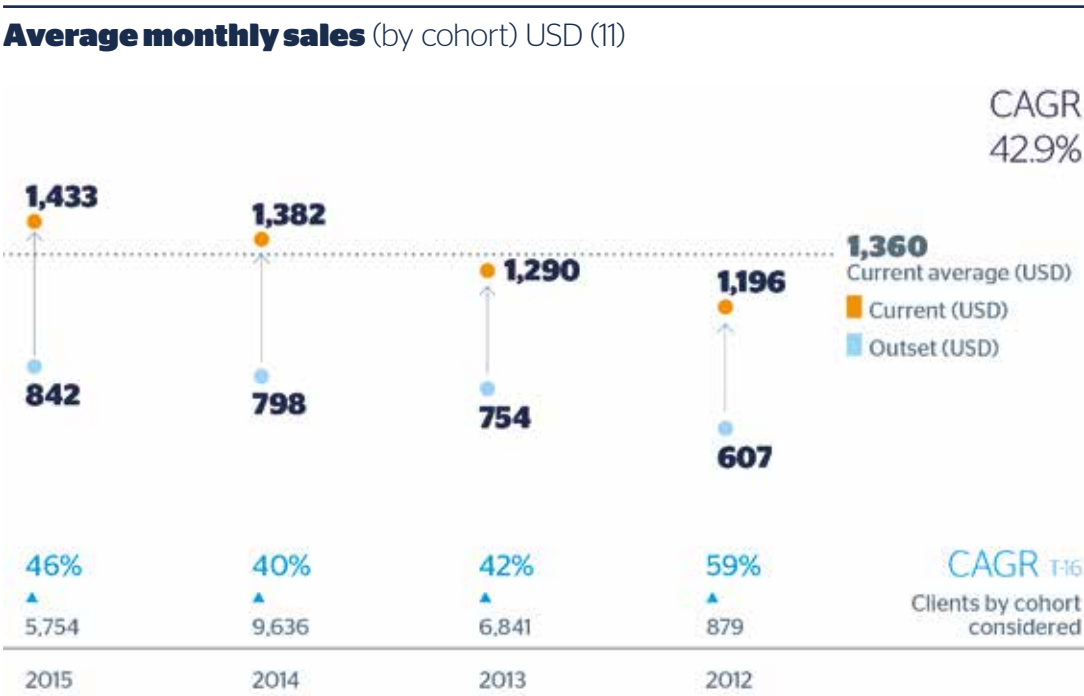
Source: Fondo Esperanza, BBVAMF calculations.

Small businesses have the capacity to grow a lot in percentage terms: on average, 43% annually for sales, 54% annually for net incomes and 27% annually for assets.

- Clients included in the sample are those who have updated their economic information after the fourth/fifth disbursement, and are particularly vulnerable clients. They have very low sales, net incomes and assets (compared to other institutions in the Group), a reflection nevertheless of high growth rates.

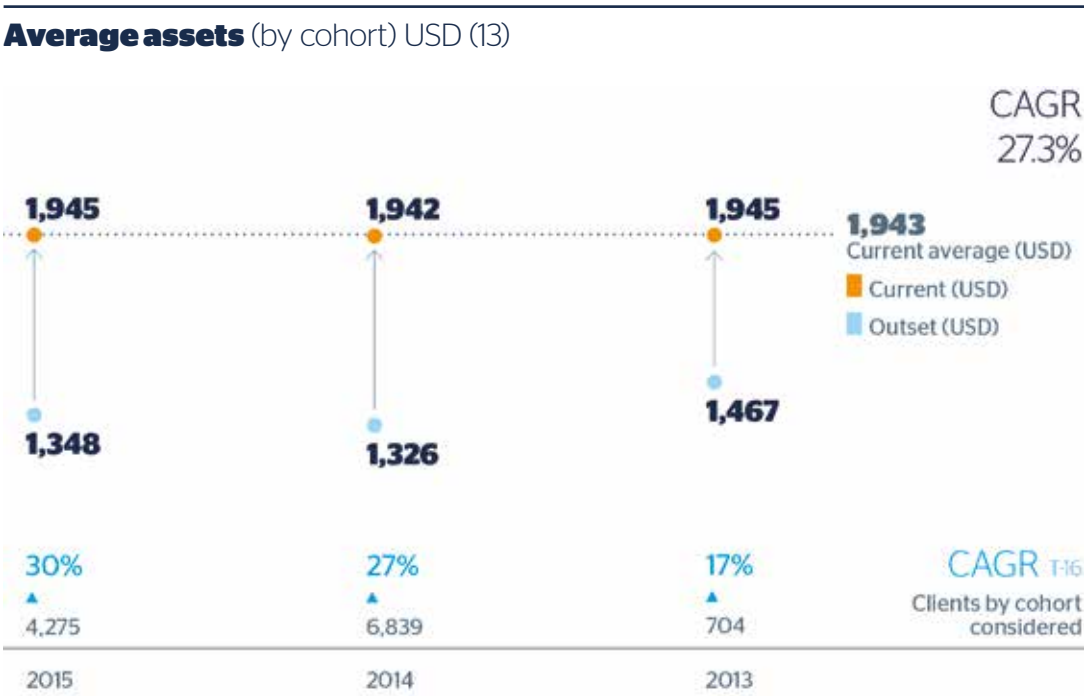


Source: Fondo Esperanza, BBVAMF calculations.



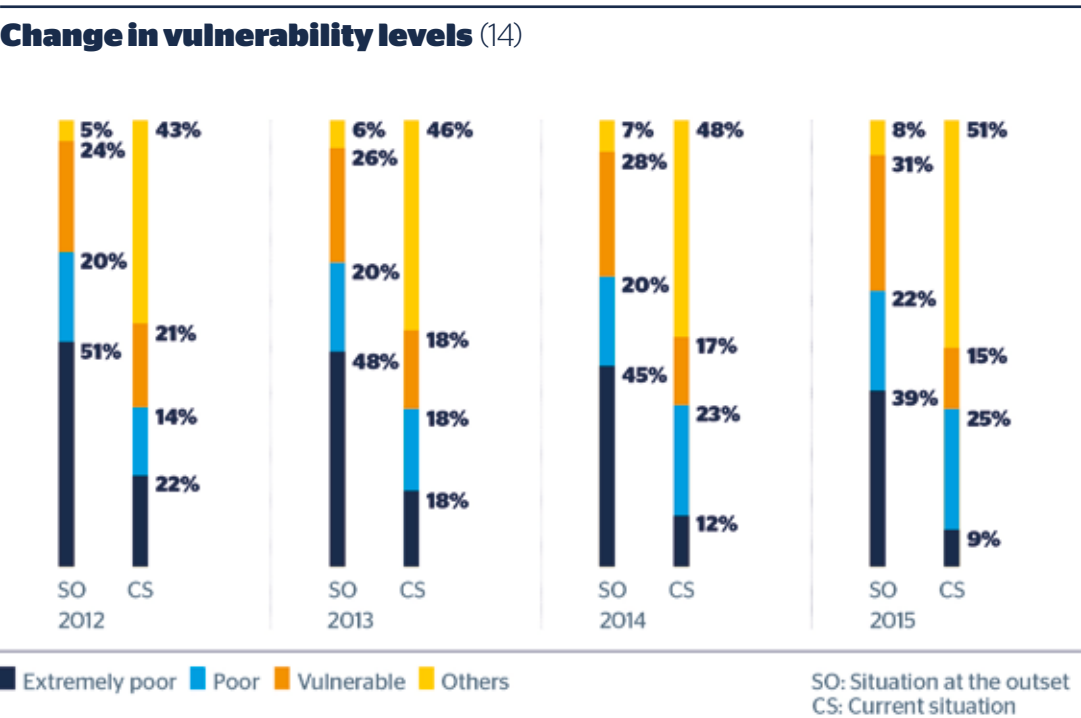
(11) Data on clients current as of 12.31.2016, and who have made another disbursement with the corresponding update of their economic information. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Source: Fondo Esperanza, BBVAMF calculations.



(12 & 13) 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.

Source: Fondo Esperanza, BBVAMF calculations.



(14) Situation at the outset (SO) and the current situation (CS).

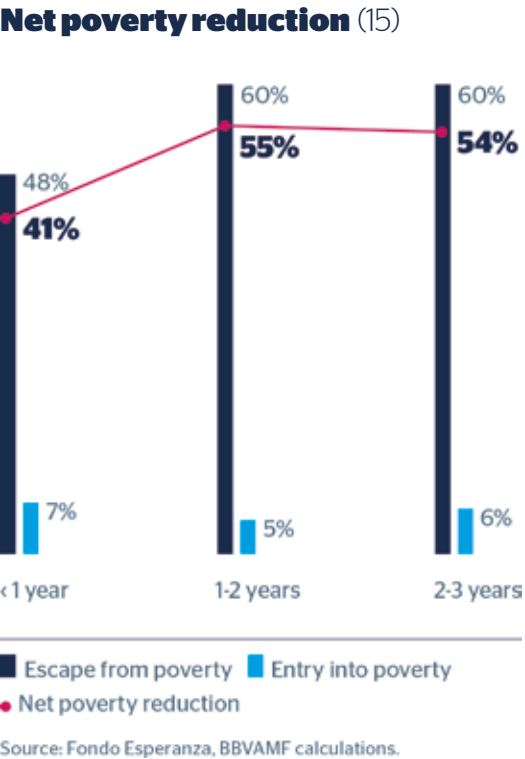
Clients who have been current at some point during 2016, and who have updated their economic information. Clients who have been written off are not classified as having escaped poverty.

(15) Clients who have been current at some point during 2016, and who have updated their information. Clients who have been written off are not classified as having escaped poverty.

• **Escape from poverty:** Clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset.

• **Entry into poverty:** Clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset.

• **Net reduction:** escape from poverty, less entry into poverty.

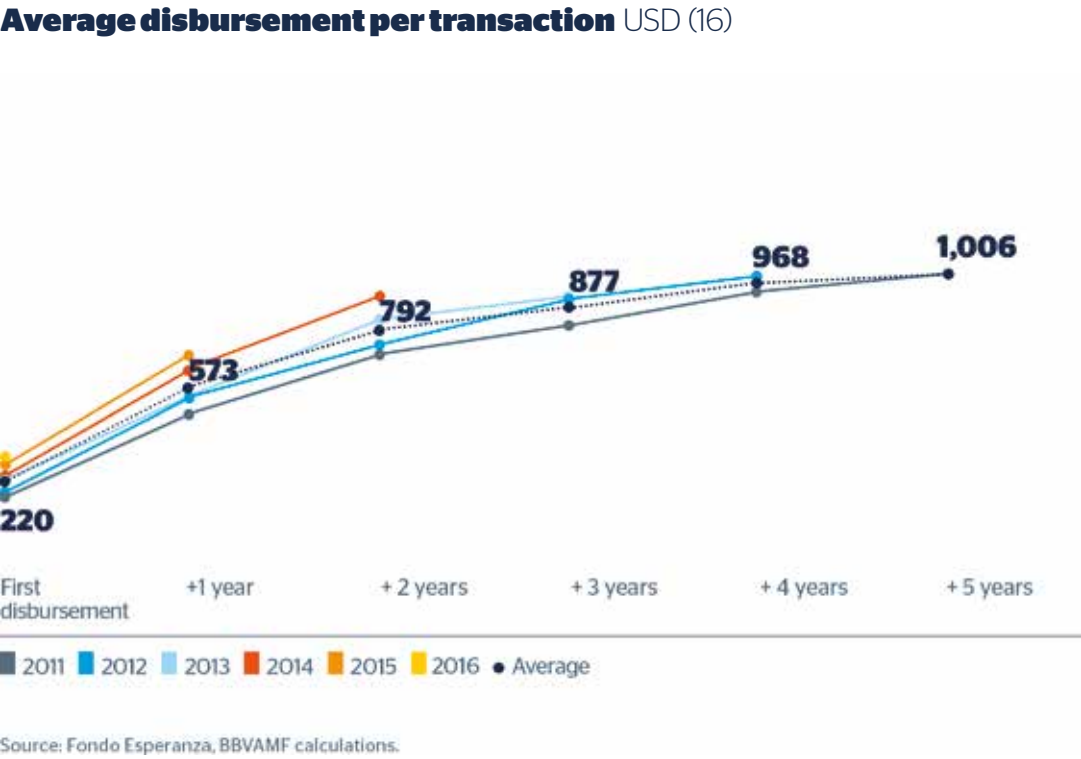


• Of the clients assessed by Fondo Esperanza (after the fourth loan), the *poor* and *extremely poor* segments perform positively: in their second year with the institution, these segments shrink by 55%.

• Some clients who at the beginning had net incomes above the poverty line, do in fact slip back down again, although this represents a very small proportion.

Initial disbursements grow over time (without discounting for inflation), but YoY growth rates are stable, reflecting the policy of protecting clients against over-indebtedness and of providing more financing gradually.

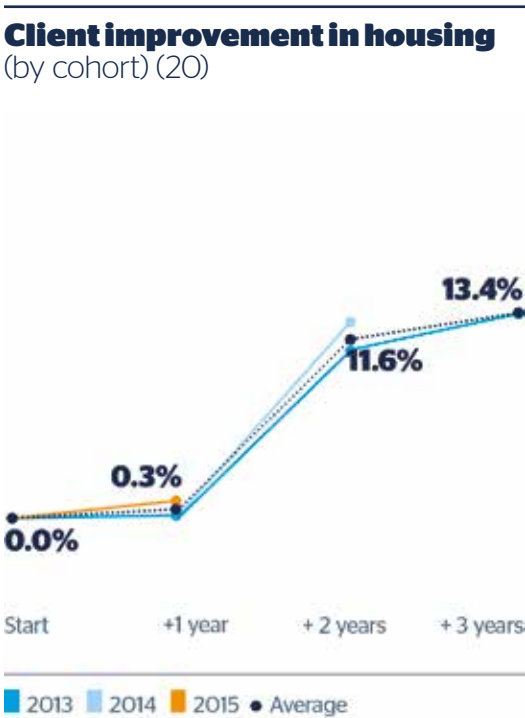
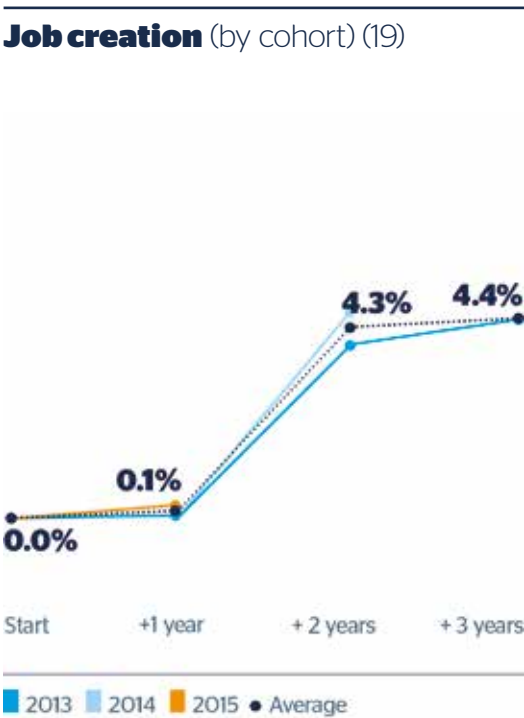
- In 2016, over 10,700 clients raised their net incomes, of whom 5,248 succeeded in climbing up over the poverty line.
- Disbursements increase sharply in the first few years, and then stabilize just below USD 1,000: this appears to be the average maximum indebtedness capacity of clients served by Fondo Esperanza.



(16) 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.

- An average of 4.3% of credit clients take out a voluntary insurance policy, more than in 2015. Although this percentage may appear to be low, it has increased steadily over time in line with the creation of microinsurance products for clients (for more detail, see the *Microinsurance* special project).
- The most vulnerable clients are rarely able to create jobs (only 7% take on an employee), but less vulnerable clients employ someone else in 18% of cases. Consistent with the trend throughout the Group, clients' enterprises are for self-employment.

The high percentage of women served influences the use of net incomes to improve the home; so after three years, 13.4% of clients have made improvements to their homes. These investments help to alleviate the housing deficit.



Source: Fondo Esperanza, BBVAMF calculations.

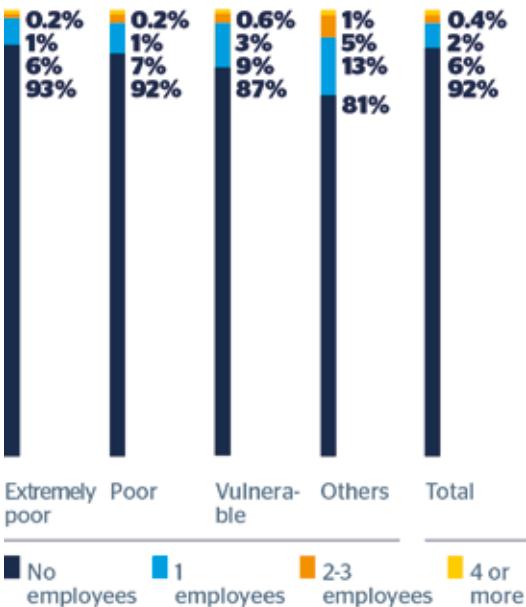
Source: Fondo Esperanza, BBVAMF calculations.

Client linkage by product type (17)



Source: Fondo Esperanza, BBVAMF calculations.

Microenterprise employee breakdown (18)



Source: Fondo Esperanza, BBVAMF calculations.



Source: Fondo Esperanza, BBVAMF calculations.

- Substantial changes start to become visible in the second year, when clients are in their fourth/fifth disbursement and update their data in Fondo Esperanza's systems.
- Entrepreneurs' good performance has meant that after three years, 4.4% of clients have created jobs in addition to the one(s) at the outset, increasing the impact that their businesses have in their communities.
- After three years with the institution, around 5% of clients are able to improve their educational attainment, another critical factor to further their progress.

(17) Clients current as of 12.31.2016.
(18) Number of employees in the enterprises of clients current as of 12.31.2016.

(19) 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.
(20) Proportion of clients still current as of 12.31.2016 in each cohort who have improved their housing conditions, from rented to owned. Averages for cohorts 2013-2015.
(21) Proportion of clients current as of 12.31.2016, from each cohort that have improved their educational attainment. Averages for cohorts 2013-2015.

What really matters

These are just some of the stories of achievement that demonstrate the success of Fondo Esperanza's work.

The fact that he is a prisoner does not prevent Roberto Luis Rosas from fashioning wooden craft objects, which his wife then sells to other workshops. When an earthquake destroyed her workshop, Rosa Norambuena decided to seek help from Fondo Esperanza. She set up her business all over again and now provides employment for two other people. José Miguel Jara studied to be a History and Geography teacher. Knowing that he is useful encourages him to carry on trying to integrate vulnerable people and those on the margins into society.



Bars do not lock out hope

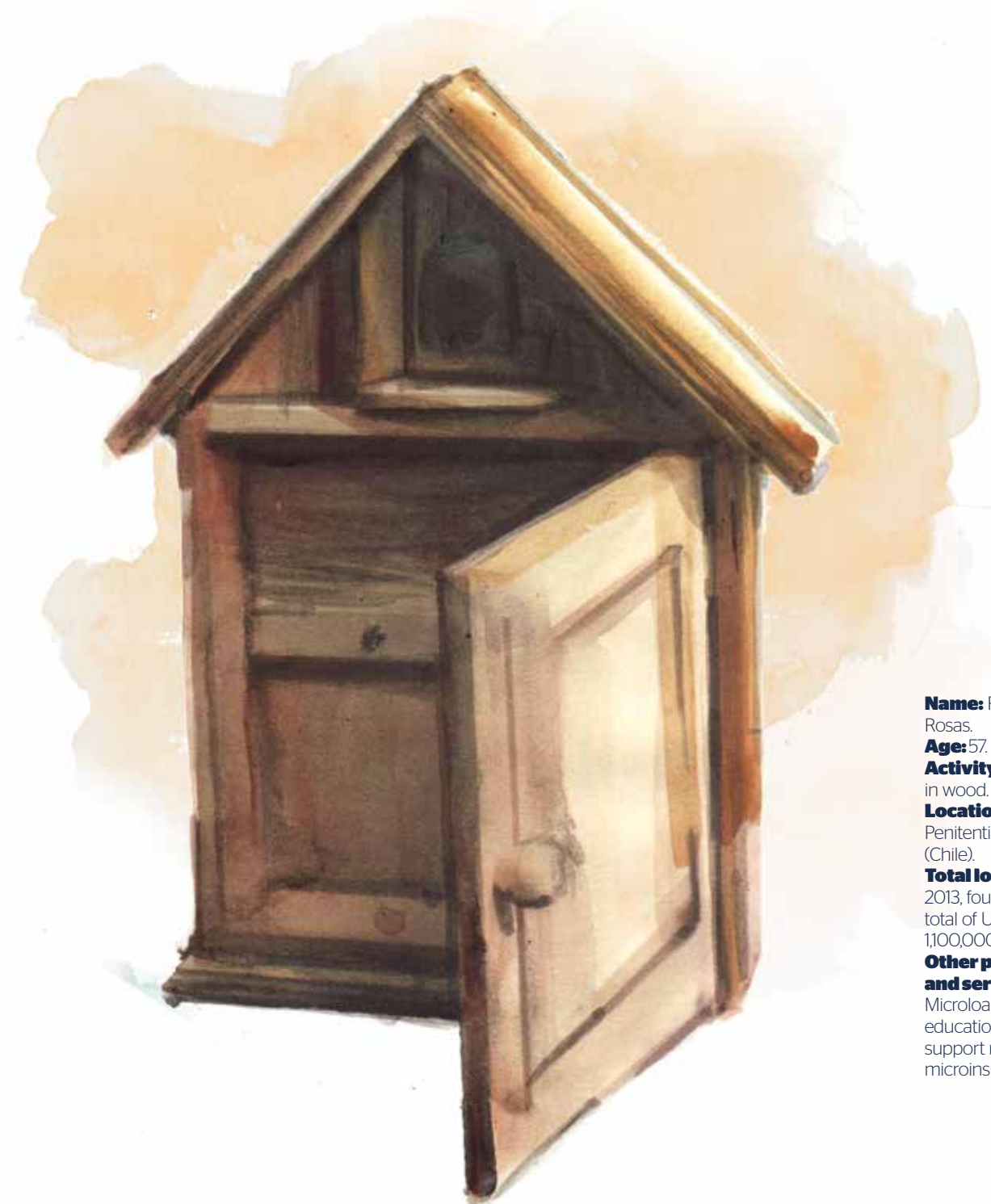
Roberto Luis Rosas is an artisan who, with his companions in Osorno penitentiary, makes furniture that is then sold in stores. Fondo Esperanza's loans enable him to spend his time on crafting these, so that his wife can sell his pieces to other workshops. Thanks to his work in prison, his family has enough to live on.

Roberto's workshop smells of freshly sawn wood and the floor is covered with sawdust. Furniture and decorative objects come to life in his hands and wood is transformed into boxes, pencils and wall clocks. He is a craftsman and, with his companions, he makes pieces of furniture that are then sold in stores. He doesn't have his own business, he has not even met his customers. His workshop is in an association room in Osorno penitentiary center, where he is serving his sentence. With craftsmanship, he is trying to carve out his future.

In 2013 he joined the *Segmentos Excluidos* [Excluded Sectors] program, with which Fondo Esperanza supports the most vulnerable: the homeless and the incarcerated.

"I learned about Fondo Esperanza through the Prison Gendarmerie and I was keen to apply for this possibility that they give to those of us prisoners who want to make a go of our lives", remembers Roberto, who belongs to the community bank *Unión, esfuerzo y trabajo* [Union, effort & hard work] formed in the jail with other prisoners.

At first, he sold furniture wholesale. Now he makes artisan pieces for a smaller market. He is painstaking and a perfectionist, sculpting the wood in its natural state so that his wife can sell his pieces to workshops that then decorate and paint them. Roberto knows that thanks to his work in prison his family has enough money to live on. He knows that his good behavior is essential



Name: Roberto Luis Rosas.
Age: 57.
Activity: Craftsman in wood.
Location: Osorno Penitentiary Center (Chile).
Total loans: Since 2013, four loans for a total of USD 1,687 (CLP 1,100,000).
Other products and services: Microloans, financial education courses, support networks and microinsurance.

Scan the
QR code and
discover
the story of
Roberto Luis





Roberto has found an escape route with his carpentry.



In the workshop the inmates learn a trade that will give them a future when they leave jail.

“We have achieved a great deal and are the living proof that if you want to, you can do it”.

if he is to hang on to the opportunity to be an entrepreneur that Fondo Esperanza has given him, and he spends his time exclusively on the orders that come in.

In the last twenty years, his wife, María, has not missed a visit one single day. Roberto chokes up when he talks about her, saying that she is his light, his pillar, his hope. Together they want to open a bazaar in his home. “I want to set up a business and

carry on this activity because it helps me a lot. Not just me either, but my companions too. They have the same plans as me: to pull themselves up and demonstrate that we are people. The fact that we are locked up doesn't prevent us from having aspirations”, he explains.

“My quality of life has improved considerably thanks to Fondo Esperanza. I support my family and hope never to go back to prison. I would recommend this institution because it is an enormous help to those of us without resources. We have achieved a great deal and are the living proof that if you want to, you can do it”, explains Roberto, as he carves a piece of wood, turning it into a tiny house for keeping your keys.■

Rosa's bricks: clay, sun and courage

When Rosa Norambuena decided to manufacture bricks she had to deal with an additional challenge: she was starting a job that was viewed as being only for men. But she did it, and with some other friends, became one of the first women in this sector in Cauquenes (VII Maule region).



Scan the
QR code and
discover
the story
of Rosa



Ever since she started, 17 years ago now, Rosa saw the business opportunity in making bricks: “I started with a company and for the last eight years I have been doing this on my own. Some women friends and I decided to learn the trade from the experts. I managed to keep myself going with the help of programs, my own funding and help from friends”, she reminisces, sitting on one of the enormous piles of bricks that are drying in the intense sun.

But an earthquake in 2010 snatched everything from her: she lost her house and her business. The machines, the tools and the raw material were all destroyed. Rosa needed to get her life back and help from the government was not forthcom-

ing. So she decided to go to Fondo Esperanza for funding and to get the factory going again. In just two months, she was already a member of the community bank *Santa Sofía con esperanza y esfuerzo* [Saint Sofia with hope and effort], which gave her the boost she needed to carry on expanding as a microentrepreneur and to consolidate her brick business. “It was a great help, it arrived at just the right time”, she says, convinced.

Thanks to Fondo Esperanza's financing she could reduce her debts and buy the hoses, brick molds and forklifts with which she works now with her employees, who fill in the molds by hand and stack the bricks in the sun so that the clay hard-

ens. “My experience with Fondo Esperanza has been an enriching one because of the confidence and respect they have shown me right from the beginning. Before they came along I had no support and nobody treated me so well, their values have changed me”, she explains.

Rosa encourages other Chilean women to follow her example, to fight for their dreams without caring whether they are in a world which may appear to be led only by men. “I invite all entrepreneurial women to get motivated and go to the offices of Fondo Esperanza; it is a great opportunity to become women who make a contribution to the country, not just at home, but also outside it”.

“You have to organize yourself and have a vision for the future”, she says, proudly. That is why she attaches so much value to the courses that the BBVA Microfinance Foundation institution has given her, which

“Fondo Esperanza is the cornerstone I need in all my plans in order to reach my goals. This institution is the anchor from which I set my goals and I am going to achieve them”.

Name: Rosa Norambuena.

Age: 43.

Business: *Rosita*, brick factory for the construction industry.

Location: Cauquenes, VII Maule región (Chile).

Employees: Two and two other relatives

Total loans: 15 loans, totaling USD 10,575 (CLP 6,919,314).

Other products and services: Microloans, financial education courses, network support and microinsurance.

To highlight: Schooling to secondary level. Single, no children. Is on the *Female heads of household* program run by Sernam, through a Maule Catholic University program, with Fosis and Sercotec funds.

Fondo Esperanza
Stories of achievement
Rosa Norambuena

“I have lived through an experience with Fondo Esperanza that has enriched me thanks to the confidence and respect they showed in me right from the beginning. Before I met them nobody supported me”.

have enabled her to improve her enterprise management. “Before, I didn’t know what a School for Entrepreneurs was. Nobody had explained what fixed and variable costs are... all this helps my business go better”, points out this natural entrepreneur.

To expand her business and sell bricks further afield, Rosa wants to buy a vehicle. Her dream has no limits and she is already thinking about exporting to other countries: “Fondo Esperanza is the cornerstone I need in all my plans in order to reach my goals. This institution is the anchor from which I set my goals and I am going to achieve them”, she concludes.■



Rosa with her employees, filling the molds by hand and stacking the bricks to harden in the sun.



Rosa smiles as she thinks of the promise her future holds.

A teacher who learns every day

José Miguel Jara studied to be a History and Geography teacher. What he learned has helped him in his job at Fondo Esperanza, where he enjoys contributing to the progress made by entrepreneurs who want to get ahead, and helping them make their dreams come true. Knowing that he is useful to those who have the least encourages him to carry on pushing himself to be useful to vulnerable, marginalized people.

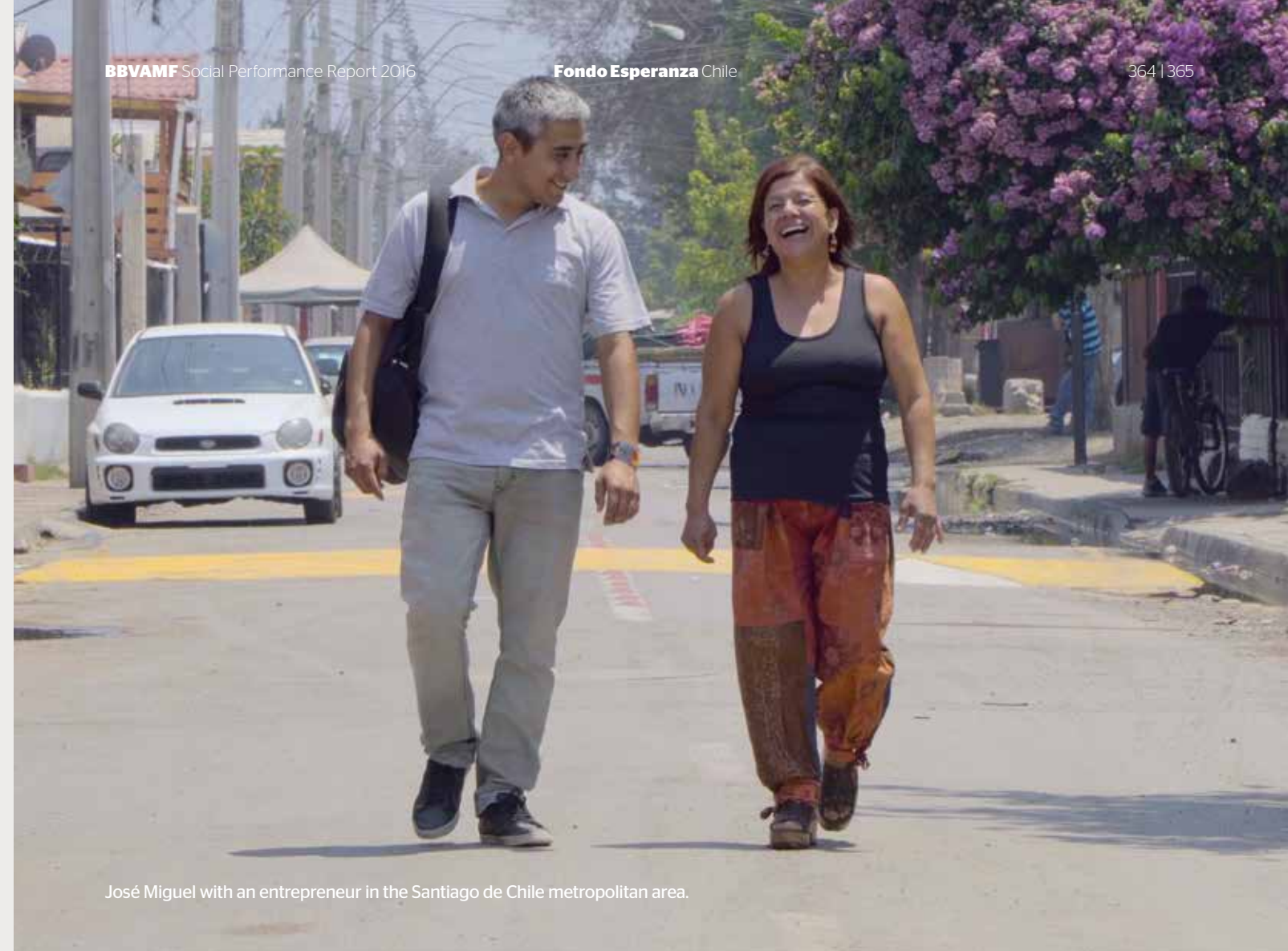
“In Fondo Esperanza you can do an important job, it is worth the effort”, says José Miguel with conviction. He has been a loan officer for this institution’s community bank since 2011. Although he never worked as one, he studied to be a History and Geography teacher. His training helped him to be a better professional. “I managed to achieve an interesting fusion between my love of teaching with the institution’s educational model. At the beginning the fact that I was working with adults was a stimulating challenge because it was a field in which I lacked experience”, he comments.

Full service

The first community bank he worked at, *Camino al Cambio* [Journey to Change], welcomed his group very warmly. “It was really

admirable, they received us so enthusiastically. The response from all the entrepreneurs was remarkable too; they met their obligations 100% and were never behind with their payments”. The community bank loan officers organize meetings with the people living in the communities in their homes, as well as visiting them at their places of work, which is the activity that José Miguel likes best.

He is pleased to be working in the field and to be learning about the reality of the people to whom he is providing full service care. He knows that it is in his power to bring about positive change in their lives and those of their families. He advises entrepreneurs in the metropolitan region of Santiago de Chile, Colina, Lampa and Tiltill, in an office that serves nearly 1,200 members, in around 60 community banks.



José Miguel with an entrepreneur in the Santiago de Chile metropolitan area.

He also looks after the prisoners in the Colina penitentiary who are on Fondo Esperanza’s *Segmentos Excluidos* program. Thanks to this entrepreneurial initiative, targeting the most vulnerable sectors, such as penitentiaries and the homeless, prisoners

can set up community banks in order to create opportunities for themselves when they are out of jail.

José Miguel is 32 years old, father of two small children and tells us how his family is a cornerstone in his life, with whom he learns something every day. Knowing that he is of use to those who have the least drives him to carry on making an effort, putting the best of himself into the task to help those who are vulnerable and on the margins. ■

What he most likes about his job is that he learns something every day and feels useful, bringing about positive changes in the lives of entrepreneurs and their families.

‘School for Entrepreneurs’, financial education and beyond

The *School for Entrepreneurs* supports all-round development for the most vulnerable entrepreneurs, with training that not only helps clients to access financial services, but also makes available resources that enable them to build on their empowerment, their business development, social capital and their family’s welfare in order to achieve success in their enterprises.

From its beginnings, Fondo Esperanza has developed a specific model in which its clients’ all-round education is a key part of the institution’s value proposal. Training courses, which are a response to clients’ needs, have the aim of encouraging the all-round development of entrepreneurs taking part in its community banking program.

The first educational workshops run by the institution focused on issues such as self-esteem and personal development. In 2006 the education offered by Fondo Esperanza was subjected to a full assessment by the clients themselves, employees and experts. As a result of this the School for Entrepreneurs was born in 2007, and holds the following key principles:

- An education model for adults that keeps the entrepreneurs center stage, encouraging their empowerment at all times.
- A participatory and flexible program, where the clients themselves choose from a curriculum the areas that they want to develop.
- Continuous assessment throughout the program.

The subjects studied at the school are frequently reviewed in order to ensure they meet clients’ needs. To date, there are four main development blocks, each with its respective modules:

- Empowerment
- Business development
- Social capital
- Family welfare

This training, which is aimed at the most vulnerable (88.2% of clients are *vulnerable*⁽¹⁾ according to the MIDE classification), is an integral part of the community bank’s loan processes, and is provided to clients on a rolling basis.

- Entrepreneurs receive training designed around:
- Promoting the entrepreneur’s all-round development.
 - Contributing to the growth and retention of a stable income.
 - Contributing to develop a savings mentality and avoiding over-indebtedness.
 - Reinforcing entrepreneurs’ empowerment, making them the main players in their change process and that of their communities.
 - Contributing to the financial inclusion of entrepreneurs.
 - Helping to build development opportunities for entrepreneurs.

During 2016, training was given to 110,136 entrepreneurs, with 47,982 hours of education given to over 5,100 community banks.

Impact assessment

Fondo Esperanza has proprietary methodology for measuring its clients’ progress and improvement; this involves a quantitative impact assessment when the client applies for their first loan, and this is conducted again or reviewed after the client has been with the institution for 18 months. This assessment was implemented in October 2012 for new clients and in 2014 for clients after their first year and a half, which enabled each of the areas analyzed to show a progression. This client assessment at two different moments meant that it was possible to see any improvements there might be in their standards of living and businesses. In 2016 (from January to September) 11,603 clients who applied for a fifth loan (and who, as such, had been with the institution for about a year and a half), and who had an evaluation from their first, were assessed.

The figures show that financial education has most impact on two particular areas: client empowerment (increasing the importance their opinions are given within the family), as well as issues more related to managing programs and accounts.

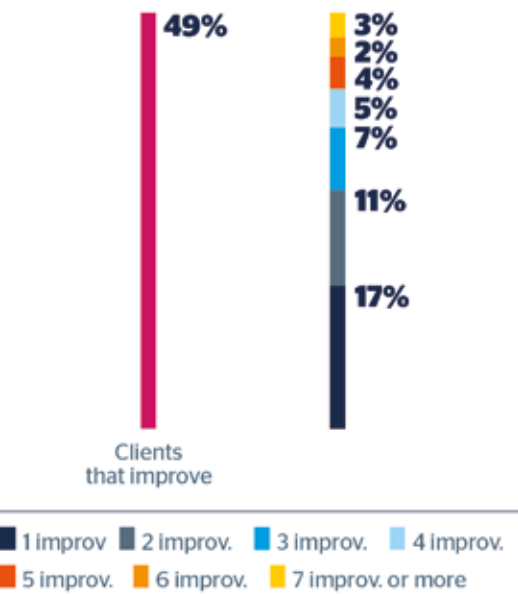
- The dimensions assessed, using the Social Indicator Scoreboard (SIS), are:
- Business development: improvements and development of their enterprise.
 - Empowerment: personal or individual development of each entrepreneur.
 - Family welfare: rise in the family’s standard of living.
 - Social capital: positive links with the local community, analyzing the relationships between social groups.

Each of these dimensions includes quantitative and qualitative variables; altogether, 33 variables are assessed between cycle one and cycle five. The following 11 qualitative variables have been identified as having a more direct connection with the all-round education received by clients: (*see next page*).

Variables for measuring the impact of the School for Entrepreneurs (a)

Business development	Whether they record business sales and profits.
	Whether they keep family and business accounts separate.
	Frequency or constancy in monitoring expenditure.
	Clear vision as to how to make the business grow.
	Whether, on starting a new project or task, they first collect all information available about how to go about it.
	Whether the possibilities of success or failure are assessed beforehand.
	Whether, on starting a project, the tasks involved are planned beforehand.
Family welfare	Whether budgets for household expenditure are compiled.
Empowerment	Whether they feel they have the ability to develop the business.
	Whether they feel that their opinion is important when family decisions are being taken.
	Whether they often become the leaders of the groups in which they take part.

Clients assessed in the fifth cycle who show improvements (b)



(b) Proportion of clients in their fifth cycle during 2016, assessed by Fondo Esperanza through its Social Indicator Scoreboard, who have improved in any of the variables being analyzed.

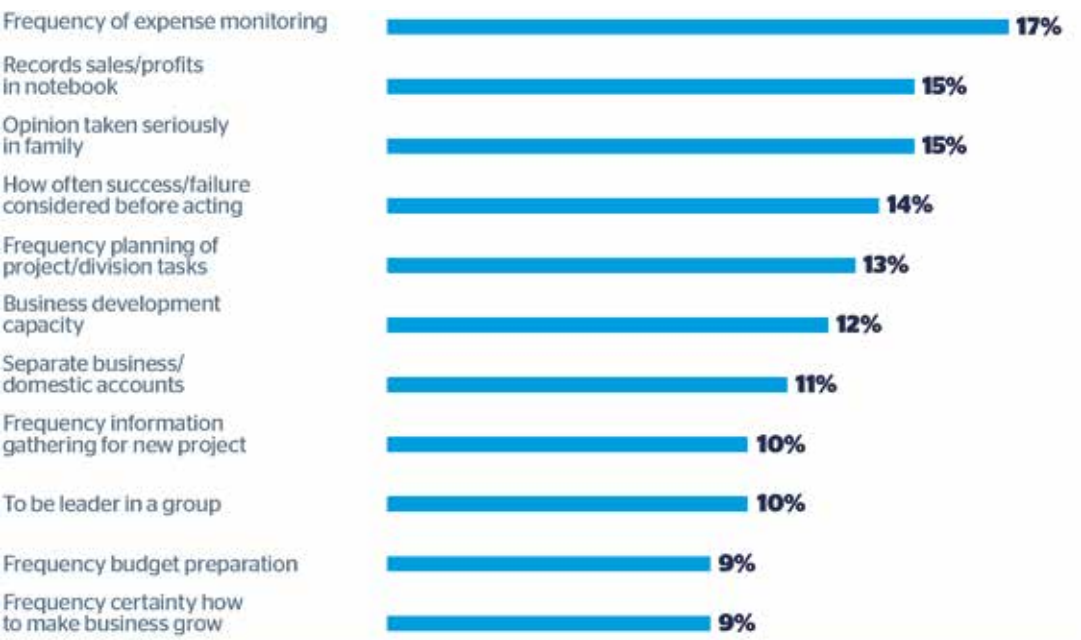
Source: Fondo Esperanza Social Indicator Scoreboard as of September 2016. Collated by BBVAMF.

Between January and September 2016, of the 11,603 clients assessed, 5,650 (49%) showed some improvement.

The figures reveal that financial education impacts the most on two particular areas: client empowerment (increasing the importance their opinions have within the family), as well as issues more related to the business and accounts, such as monitoring business expenses or starting to record sales and profits in writing.

If we analyze the relationship between those variables in which clients show an improvement, we see that the strongest correlation is between business development variables: clients with training have increased the frequency with which they conduct analysis and collect information before going forward with a project (DN5), they have also often made progress in assessing the likelihood of success or failure (DN6) and they plan and share tasks to achieve a goal (DN7).

Areas in which clients improve (c)



Source: Fondo Esperanza qualitative analysis, Social Indicator Scoreboard (SIS) as of September 2016. BBVAMF analysis.

Correlation between variables (d)

	DN1	DN2	DN3	DN4	DN5	DN6	DN7	BF1	EM1	EM2	EM3
DN1		0.34	-0.01	0.02	0.03	0.04	0.02	0.01	0.02	0.02	0.02
DN2			0.02	0.03	0.04	0.04	0.03	0.01	0.03	0.02	0.01
DN3				0.34	0.27	0.28	0.29	0.24	0.15	0.16	0.15
DN4					0.38	0.37	0.35	0.23	0.22	0.21	0.18
DN5						0.46	0.41	0.24	0.19	0.20	0.17
DN6							0.42	0.25	0.22	0.22	0.19
DN7								0.25	0.18	0.17	0.15
BF1									0.15	0.14	0.13
EM1										0.35	0.30
EM2											0.30
EM3											

Business development						Family well-being					
DN1	Records sales/profits in notebook	DN2	Keeps business/domestic accounts separate	DN3	Frequency of expense monitoring	BF1	Frequency budget preparation	EM1	Business development capacity	EM2	Opinion taken seriously in family
DN4	Frequency of being certain how to make business grow	DN5	Frequency with which information for new project is gathered	DN6	Frequency likelihood of success/failure is assessed before acting	EM3	To be leader in a group				
DN7	Frequency with which project/ division tasks are planned										

Source: Fondo Esperanza qualitative analysis, Social Indicator Scoreboard (SIS) as of September 2016. BBVAMF analysis.

(c) Proportion of clients in their fourth cycle during 2016 assessed by Fondo Esperanza through its Social Indicator Scoreboard who have improved compared to their situation at the outset in each of the variables being analyzed. (d) '1 to 1' correlations of the improvements in the variables described, for all clients with SIS assessments.

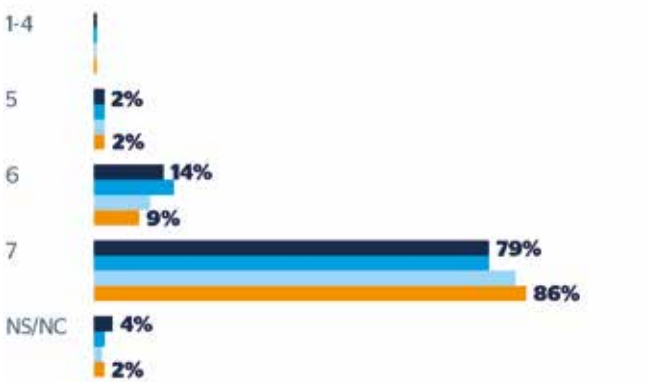
Furthermore, the analysis shows that empowered clients who consider that their opinion is given more weight now than before within their family (EM2), also believe that they are improving their leadership skills (EM3).

Those clients who record their sales in a notebook (DN1), also often make improvements when it comes to separating business and household accounts (DN2). However, this does not appear to be linked with other improvements.

Satisfaction surveys are held every year with the aim of improving service and finding out about client needs. The 2015 survey revealed that around 80% of the clients surveyed rated the *School for Entrepreneurs* and the methods it uses very highly (giving it the top score), as the results in the Client satisfaction graph below (e) show.

The methods employed at Fondo Esperanza's *School for Entrepreneurs* thus help clients, not only to access financial services, but also to make resources available to them so that they can increase their empowerment, social capital and family welfare, in order to achieve success in their enterprises. ■

Client satisfaction with the School for Entrepreneurs (from 1 to 7) (e)



■ Overall assessment of the School for Entrepreneurs
■ Usefulness of subjects learned in the School for Entrepreneurs
■ Opinion of teaching method ■ Clear contents

Source: Fondo Esperanza. Collated by BBVAMF.

Notes (1) According to the poverty line as set by the Ministry of Social Development (differentiating between the rural and urban environments). Taking *per capita* net income (estimated as business surplus divided by the size of the household), the segment made up of clients whose *per capita* net income is over the poverty line, but under the threshold obtained by multiplying the poverty line by 3, is considered vulnerable.

(e) Assessment of the *School for Entrepreneurs* of a sample of 4,069 clients who received training in 2015. 13% of the sample gave invalid responses. Each classification shows the percentage of clients in the sample who assigned that mark, against total clients in the sample with valid responses.

