

Banco Adopem **Dominican Republic**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“Learning is not just a question of learning how to understand something, it is just as much a question of learning how to do something”.

American Utopia
Pedro Henríquez Ureña

Banco Adopem Description 276 Management team and board 281	Measuring 2016 Social performance results Our clients 284 Our clients' businesses 288 Our clients' development 290 What really matters Stories of achievement Diana Céspedes 302 Yanira Marmolejos 306 José Rafael Reyes 310	Special projects Microfranchises 312 Agent banking 318 Macroeconomic context Dominican Republic 324
---	---	--

Committed to the vulnerable

Banco Adopem supports the development of disadvantaged people in the Dominican Republic through their insertion in the formal economic and financial system. More than 1,393 employees work to improve the standard of living of Dominicans throughout the country, with a network of 74 branches and 123 banking subagents.

Banco de Ahorro y Crédito Adopem, S.A. is a financial institution with the mission of promoting Responsible Productive Finance in the Dominican Republic. It is committed to society, to the most disadvantaged segments and small-scale businesses, creating and promoting programs and projects with significant socio-economic impact, through activities and fieldwork, focusing on sectors that are vulnerable and difficult to access.

Banco Adopem targets enterprises that promote its customers' development by supplying the products and services they need. It began operating in 2004 as a bank, although it has been originating loans for nearly three decades as an NGO. It has been a member of the BBVA Microfinance Foundation group since 2012.

The entrepreneurs it serves are mainly involved in the production and sale of foodstuffs, clothing and footwear, arts and crafts, carpentry and service provision of various kinds. Banco Adopem relies on the daily commitment of 1,393 employees dedicated to their clients improving their own standard of living and that of their families.

Thanks to its nationwide footprint, with 74 branches and 123 banking subagents, Banco Adopem contributes to the growth of micro, small and medium-sized entrepreneurs in the country's most vulnerable sectors.

Banco Adopem is synonymous with transparency, compliance, responsibility, customer service and institutional development. The support of national and international institutions

With a sharp focus on the disadvantaged, Banco Adopem is an institution that is particularly recognized for its care of *vulnerable* female entrepreneurs to whom it provides credit, financial education and advice.

with which it has forged strategic alliances has helped it to achieve its goals and targets.

In 2016, its *Rural Finance and Environment* program promoted care for the environment by involving entrepreneurs in low environmental impact activities and businesses. This initiative includes the *Promoting Green Loans as a Financial Inclusion Strategy in Rural Areas of the Dominican Republic* program, which encourages access to credit for entrepreneurs in the farming sector so that they improve environmental quality outcomes in their productive processes.

Banco Adopem and the Tropicalia Foundation signed an agreement to develop the social program *Miches means business!* that provides financing for sustainable tourism programs with a revolving fund provided by this body.





In 2010 Banco Adopem was chosen, for the second consecutive year, by the Inter-American Development Bank (IDB) as the *Bank of Excellence in Microfinance* in Latin America and the Caribbean.

The bank has continued to reinforce its commitment to education by extending its alliances with educational institutions

through the *EDUCA-T* Educational Loan, which enables disadvantaged students to get the financing they need to begin or continue their studies at different stages.

This year the bank has signed a contract with the hairstyling products company *Star Products* under which those female entrepreneurs banking with the institution who have beauty salons receive training in hairdressing techniques; furthermore, they are eligible for discounts on the products they need for their businesses.

Banco Adopem received the *2016 Argentinum Award* for its continued efforts in motivating, programming and driving new initiatives to address banking issues in the Dominican Republic and for protecting its customers.

The bank ranks N° 59 in the *80 Best Places to Work in 2016*, published by *Mercado* magazine that classifies Dominican companies that promote good working practices among their employees, highlighting the development, welfare and professional growth of staff working there. Banco Adopem ranks eighth in the category *Firms that best promote their Personnel* and ninth in *Companies that create most jobs*.

In 2016 Banco Adopem obtained a better long-term credit rating from Fitch Rating, at AA-(dom), Outlook Stable. The agency raised the bank's long- and short-term credit ratings to AA-(dom) from A+(dom), and to F1+(dom) from F1(dom), respectively.

It also retained its ALFA MAS (a+) classification from the International MicroRate Committee, in its 2015 assessment, that reaffirms

its excellent positioning in the microcredit sector. This is the highest rating that an institution in the Dominican Republic can obtain for applying good practice in its activities, thanks to its team of professionals specializing in serving low-income entrepreneurs.

In 2010 Banco Adopem was chosen for the second consecutive year by the Inter-American Development Bank (IDB) as the *Bank of Excellence in Microfinance* in Latin America and the Caribbean, emerging in the sector as a model institution, one that complies with international guidelines and regulations.■

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)

128,577,386

Amount disbursed in 2016 (USD)

146,935,016

Nº of disbursements in 2016

208,368

Average disbursement in 2016 (USD)

705

Deposits & others (USD)

56,045,631

Nº of employees

1,393

Nº of offices

74

People receiving financial education

28,801

Management team and board

Management team

Mercedes Canalda
Executive President

Eva Carvajal
Executive & Business
Vice-President

Sonia Reyes
Vice-President, Finance
& Accounts

Fernando Pérez
Vice-President, Operations
& Administration

Juan Francisco Terrero
Vice-President, Technology
& Communications

Marlen Jiménez
General Office Manager

Neyda Iglesias
Human Resources Manager

Iván Moquete
Integrated Risk Manager

Hector Almánzar
Audit Manager

Quisqueya Domínguez
Legal Affairs Manager

Patricia Álvarez
Marketing Manager

José Hilario Acost
Credit & Branch Network
Manager

Cecilia Ramón
New Business Manager

Mariano Frontera
Products & Channels
Manager

Blanca Español
Credit Recoveries Manager

Niobe Rivera
Program Manager

Digna García
Administration Manager

María Estela Terrero
Insurance Administration
Manager

Olga Araujo
Finance & Treasury
Manager

Bernalda Perozo
General Accounts
Manager

Rafael Mateo
Infrastructure & IT Security
Manager

José Luis González
Development & Data base
Manager

Alexander Jiménez
Systems Manager

Board

José Antonio Colomer
President

Mercedes P. de Canalda
Vice-President

Luis Pellerano
Secretary

Manuel Ricardo Canalda
Treasurer

Engracia Franjul
Director

Javier M. Flores
Director

Ramón Feijóo
Director

Pedro Luis Saiz
Director

Measuring

With over 200,000 credit clients, Banco Adopem has one of the highest rates of clients classified as *vulnerable* in the Group, 87% of the total client base at the end of 2016. Clients' microenterprises focus principally on *trade* and are enjoying a steady positive long-term growth, reflected in a 37% reduction in the client segment classified as *poor* after two years with the institution.



Total clients
390,199
Total credit clients
224,771
New credit clients
58,861

(1) According to the Ministry of the Economy's poverty line (differentiating between the rural and urban environments). 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

87%	50%	67%	39%	27%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

New credit clients 2016

90%	54%	61%	43%	44%
Vulnerable ⁽¹⁾	Primary education at best ⁽²⁾	Women	Rural	Under 30 years old

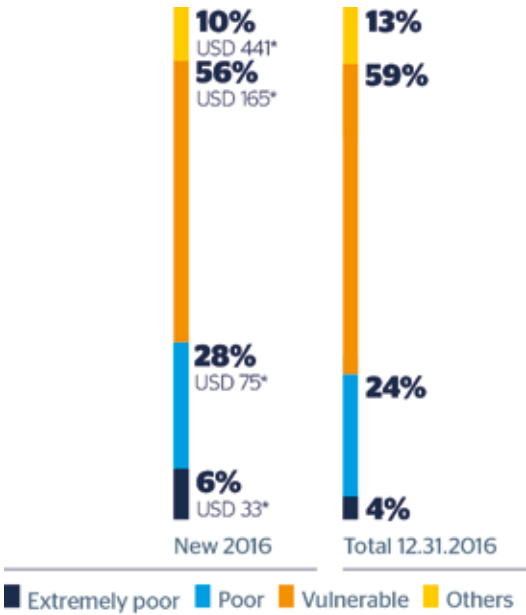
Our clients and our scale

Banco Adopem partners with its vulnerable clients, especially women (67%), young people (27%) and clients with low levels of education (50%), in the growth of their enterprises.



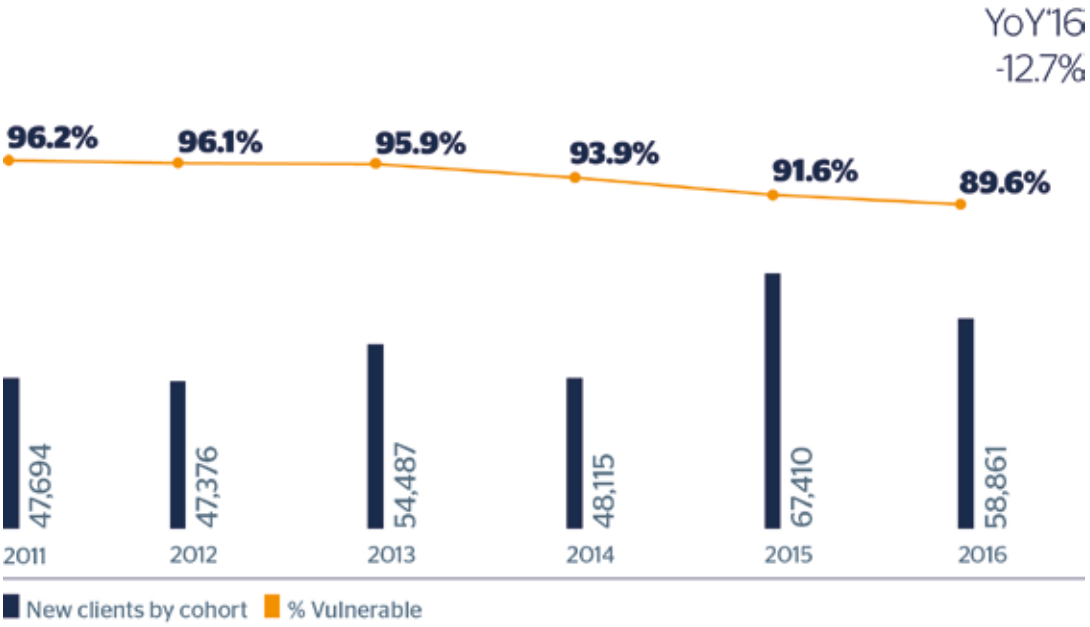
(1) According to the Ministry of the Economy's poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

Clients' economic vulnerability (1)



* Monthly net income per capita.
Source: Banco Adopem. BBVAMF calculations.

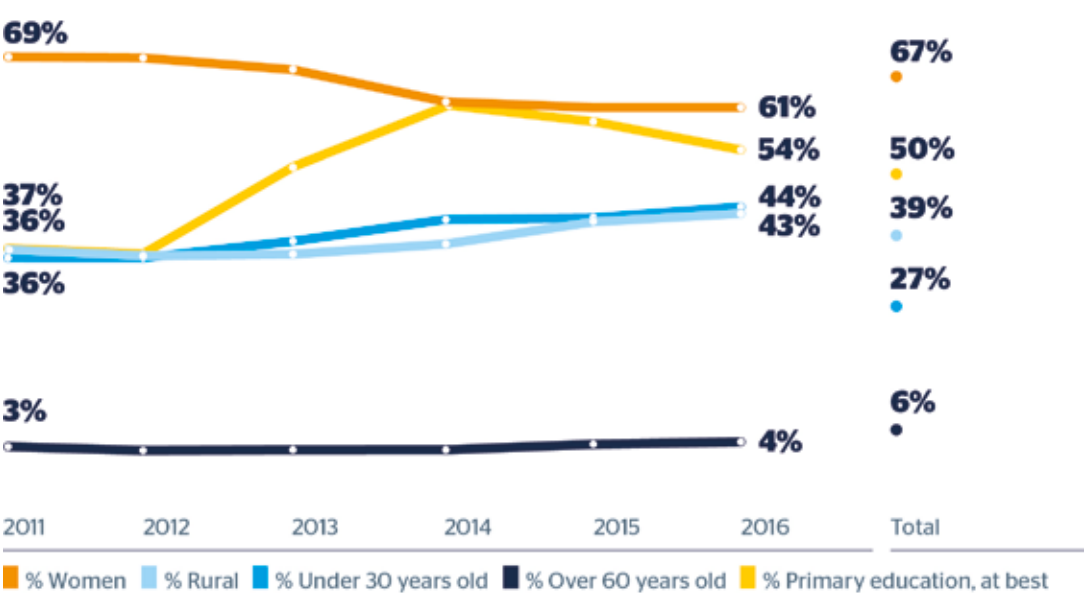
New credit clients (2)



Source: Banco Adopem. BBVAMF calculations.

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

Profile of our credit clients (3)



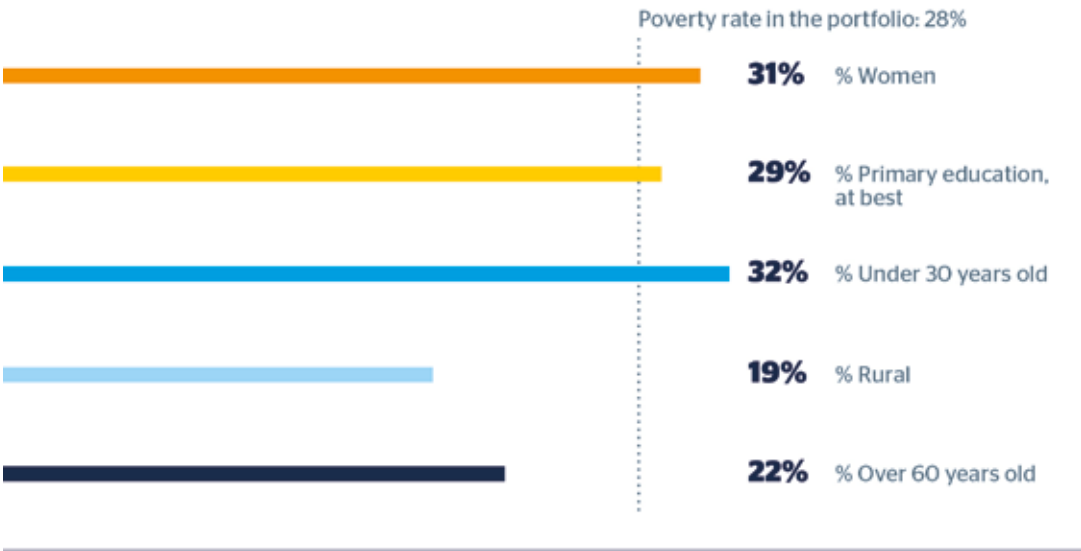
Source: Banco Adopem. BBVAMF calculations.

The client portfolio is mainly female and the proportion of women among new clients remains high (61%); in the portfolio as a whole there is a significant number of *poor* women (31% are classified as such).

- We should point to the high rate of young clients (under 30 years old) signing with the bank, and of those with primary education at best, among whom there is also a high proportion of *poor* clients (32% and 29% respectively).
- Entrepreneurs have benefited from the macroeconomic growth of the last three years, which has impacted on new clients' higher sales and disbursements.
- Sales have grown faster than disbursement, diluting the weight of the installment as a proportion of sales, one of the lowest in the Group.

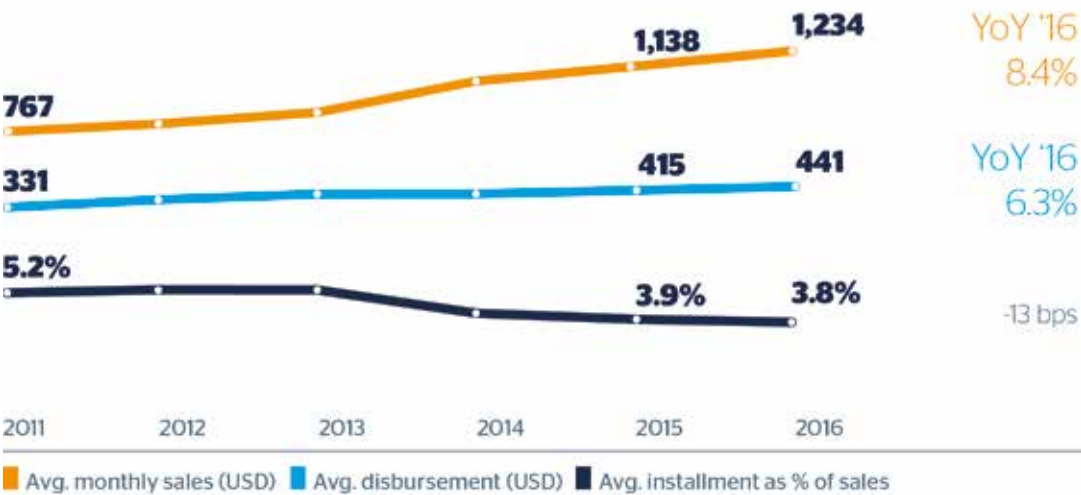
(3) New clients (without previous loans) signed up over the year. The total gives Clients current as of 12.31.2016.

Poverty profile (4)



Source: Banco Adopem. BBVAMF calculations.

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



(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.

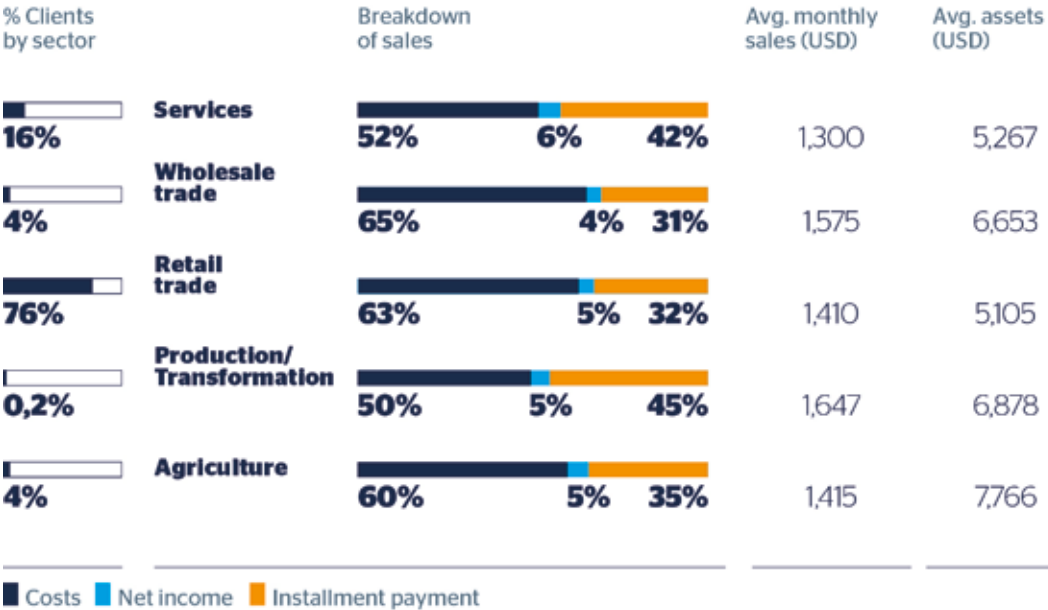
Source: Banco Adopem. BBVAMF calculations.

Our clients' businesses

Clients, most of whom are in the *retail trade* (76%), have high business margins (over 30%), even in the case of those clients classified as *extremely poor*.



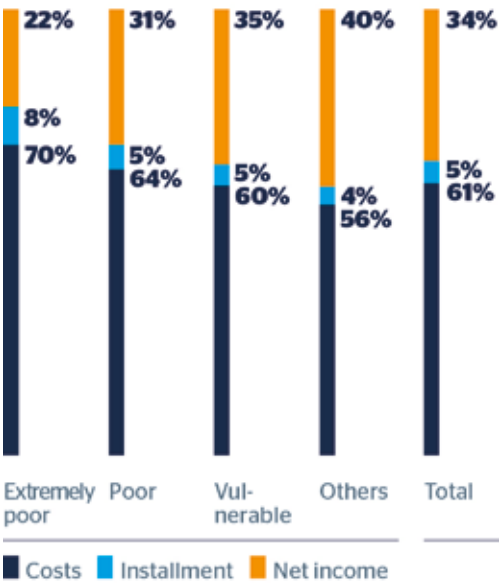
Average margins, sales and assets, by sector (6)



Source: Banco Adopem. BBVAMF calculations.

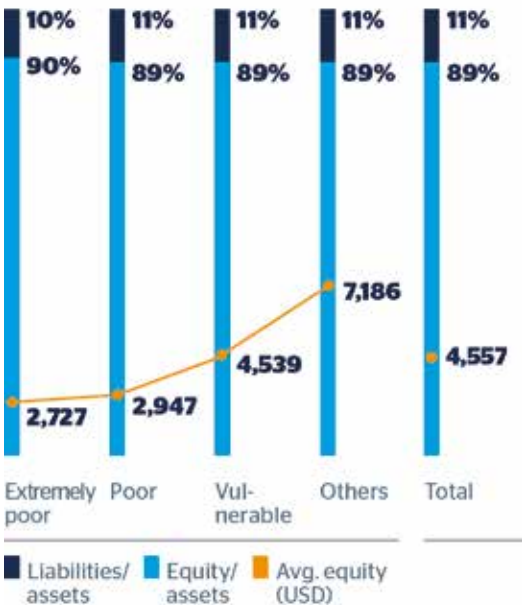
- Banco Adopem clients' micro-enterprises enjoy high margins (after paying their installment), of between 31% and 32% in trade, where 80% of current clients work, and of 45% in *production/transformation*.
- Over 160,000 clients work in *retail trade*, of whom 30% have net incomes below the poverty line. The institution also has a high proportion of rural clients, only 4% of whom work in *farming*.
- Clients are concentrated in activities which require lower investments in assets (*retail trade*, USD 5,105), and there is a high stock rotation of assets (sales/assets of 28% in *retail trade* vs. *farming*, with a rotation of 17%).
- Gross sales margin is 39% on average, which can support the higher costs of smaller microentrepreneurs. Non-vulnerable clients' economies of scale enables them to increase their efficiency and reduce costs in relative terms.
- The financial burden of the installment over sales diminishes as clients' vulnerability levels fall. On average, it represents 5%, which is a low percentage of sales.
- Leveraging is slightly lower for *extremely poor* clients and higher for *others*; on average, liabilities account for 11% of equity: 11.4% in the case of women and 9.7% for men, confirming that it is one of the few countries in the region where access to the financial system is higher for women (56%) than for men (52%) (see *Macroeconomic context*).

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



Source: Banco Adopem. BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Banco Adopem. BBVAMF calculations.

(6) Clients current as of 12.31.2016.

(7 & 8) Clients current as of 12.31.2016.

Our clients' development

Banco Adopem fosters long-term relationships with its clients, with relatively high long-term retention rates (56% of clients are still with the institution after two years), which enables the entity to be their partners as they develop and overcome poverty.



- On average 74% of credit clients are retained after a year, and this is very similar between cohorts, and over time.
- 67% of clients access a second loan, which is a good marker for recurrence and the best among Group institutions for individual loans.
- The growth of *per capita* net incomes relative to the poverty line is greater in the case of *poor* clients than those who are *vulnerable*. Clients on their second loan who started with a situation at the outset of poverty have a relative *per capita* net income that is 8% over the poverty line (see graph 11).
- The first cycles are critical in order to overcome the poverty line. More cycles are needed to get out of the *vulnerable* (three times the poverty line) bracket (see graph 11).

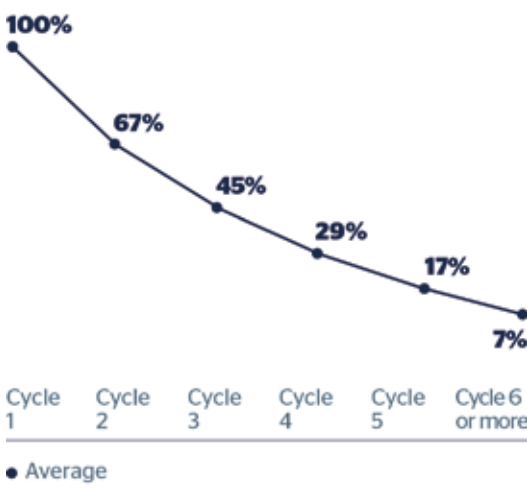
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (by cohort) (9)



Source: Banco Adopem. BBVAMF calculations.

Credit client recurrence (10)

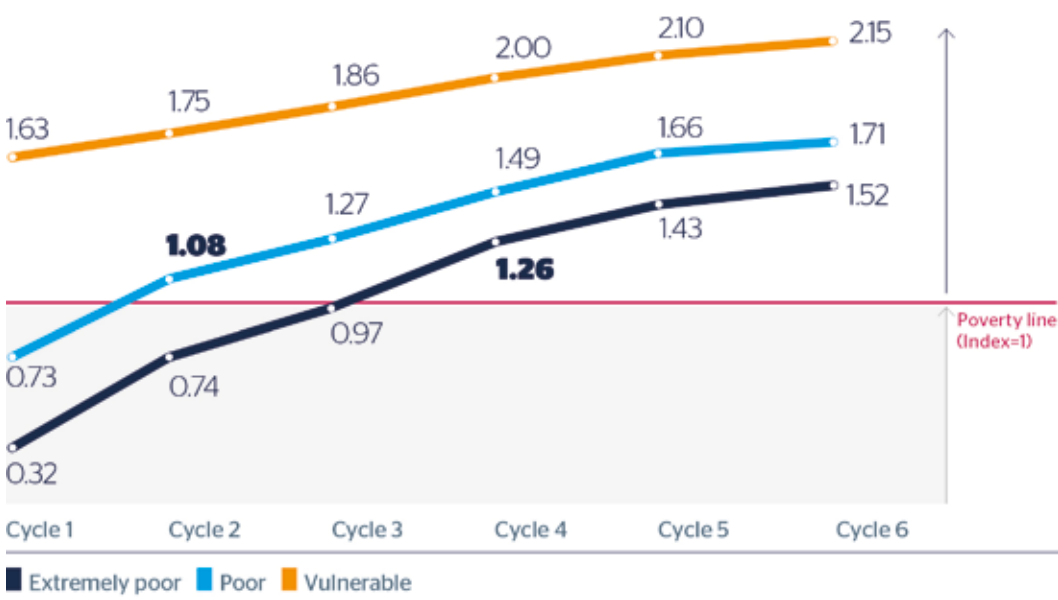


Source: Banco Adopem. BBVAMF calculations.

(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 331 days, between cycle two and three is 356 days; between cycle three and four is 367 days, between cycle four and five is 365 days and between cycle five and six is 335 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 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 (11)



Source: Banco Adopem. BBVAMF calculations.

As clients take out new loans with the institution, they succeed in increasing their incomes, which on average enables them to get over the poverty line. Clients in *extreme poverty* need an average of three cycles; for those in *poverty*, two cycles are enough.

- Men take fewer cycles than women to overcome the poverty line, and their *per capita* net income growth is higher.
- However, both men and women are progressing well and on average overcome the poverty line after one, two or three cycles.
- Clients who stay with Banco Adopem enjoy solid rates of growth in monthly sales and net incomes, as well as their average assets (the latter are higher than growth in sales and net incomes). It should be pointed out that since most of these businesses are in *trade*, growth rates of assets are expected to be lower than those of other enterprises.
- Although average growth rates have slowed slightly from 2015, average values (higher than 2015) indicate that wealth is being generated and that entrepreneurs are developing.
- The longer a client stays with the bank (earlier cohorts), the higher the proportion of clients, poor at the outset, that manages to get over the poverty line. An analysis over time shows that the segment of clients classified as *poor* falls by 37% in the second year, and by 52% in the third (see graph 17).
- These high rates are in line with the improvements that the national poverty rate has made in the last three years. The positive economic situation has enabled entrepreneurs to generate more surplus and a high proportion succeeds in overcoming the poverty line.

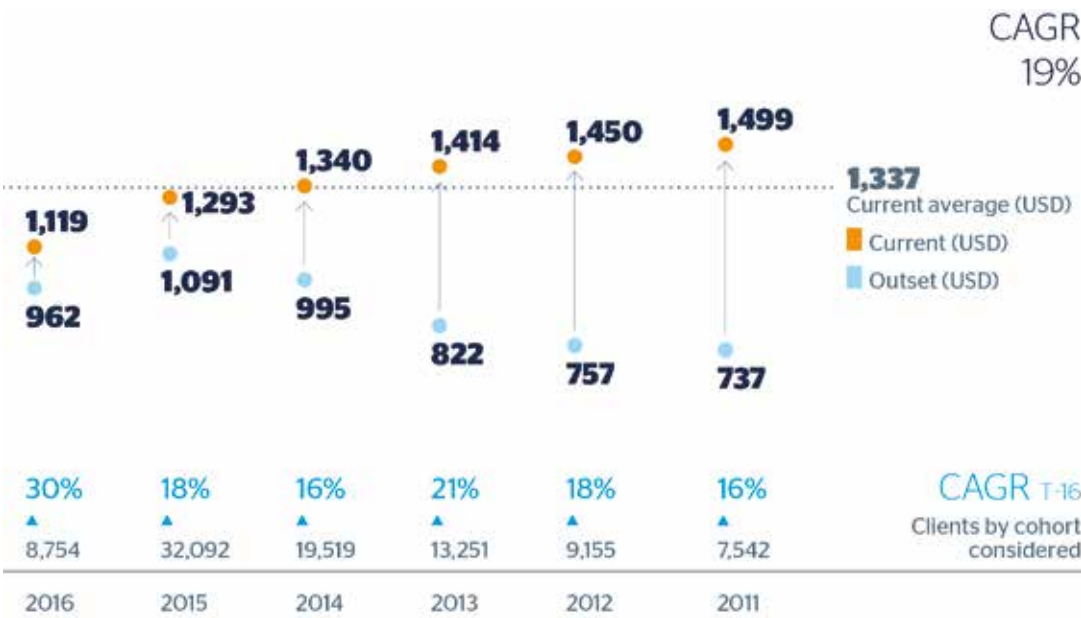
Per capita net income relative to poverty line by gender (12)



Source: Banco Adopem. BBVAMF calculations.

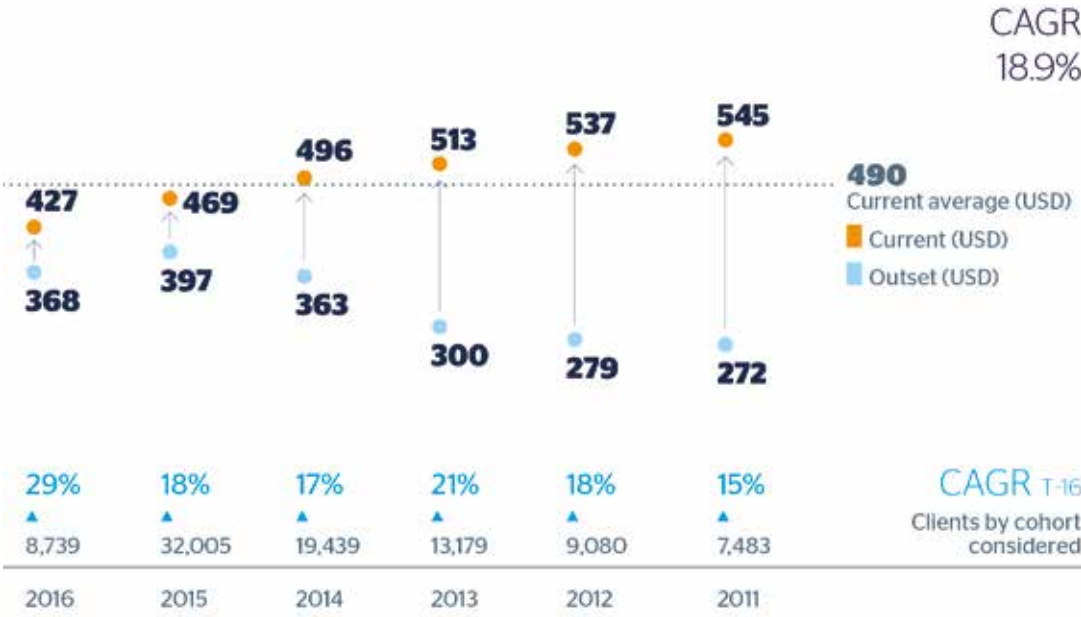
(12) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year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

Average monthly sales (by cohort) USD (13)



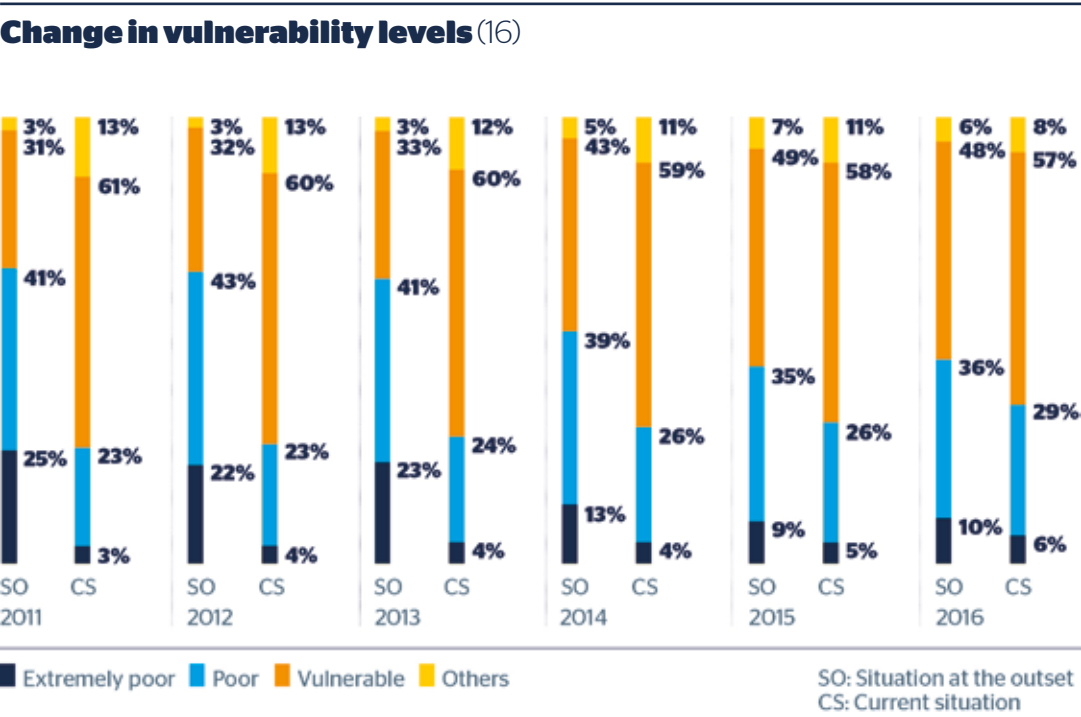
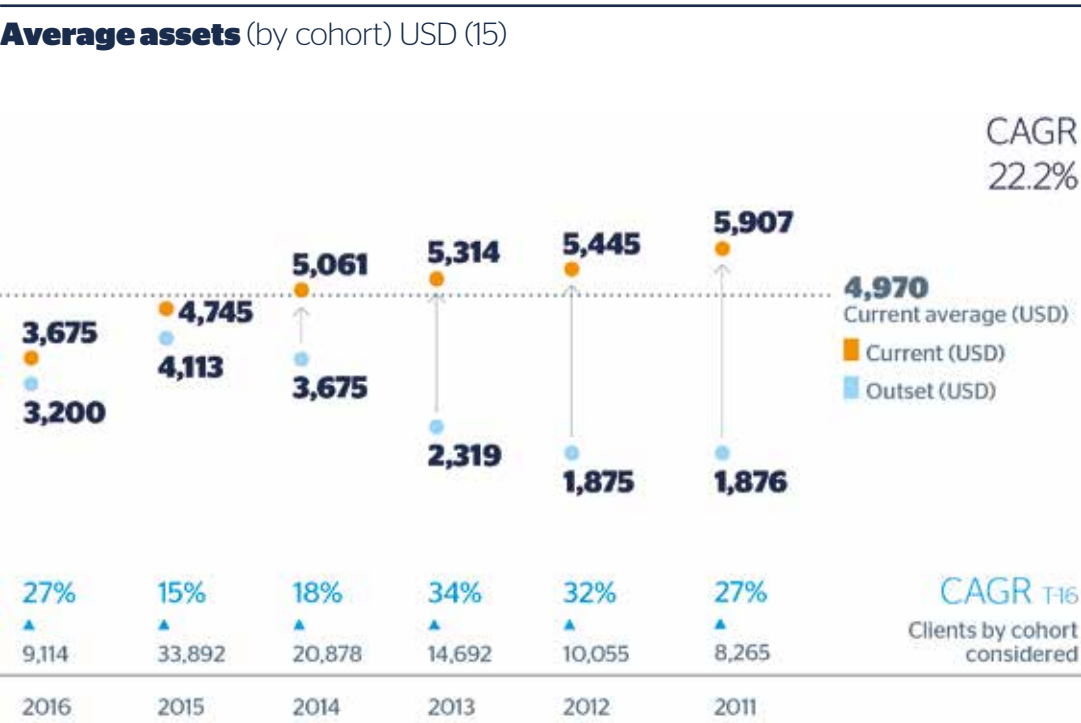
Source: Banco Adopem. BBVAMF calculations.

Average monthly net income (by cohort) USD (14)



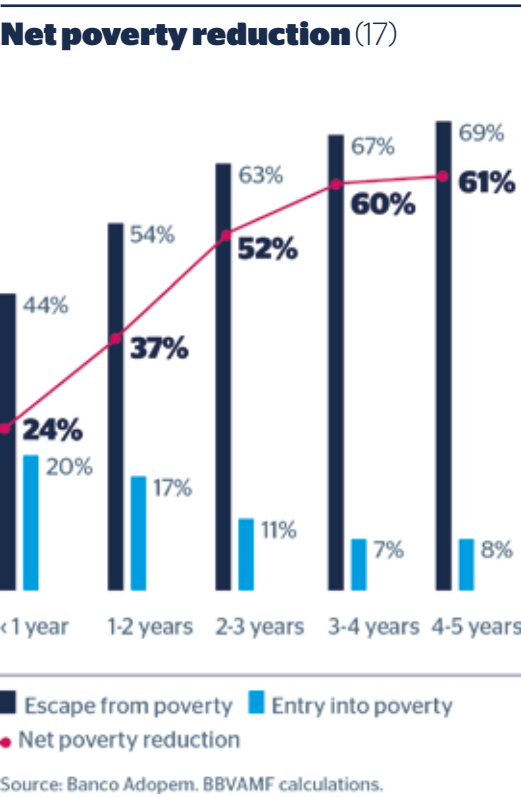
Source: Banco Adopem. BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



(15) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

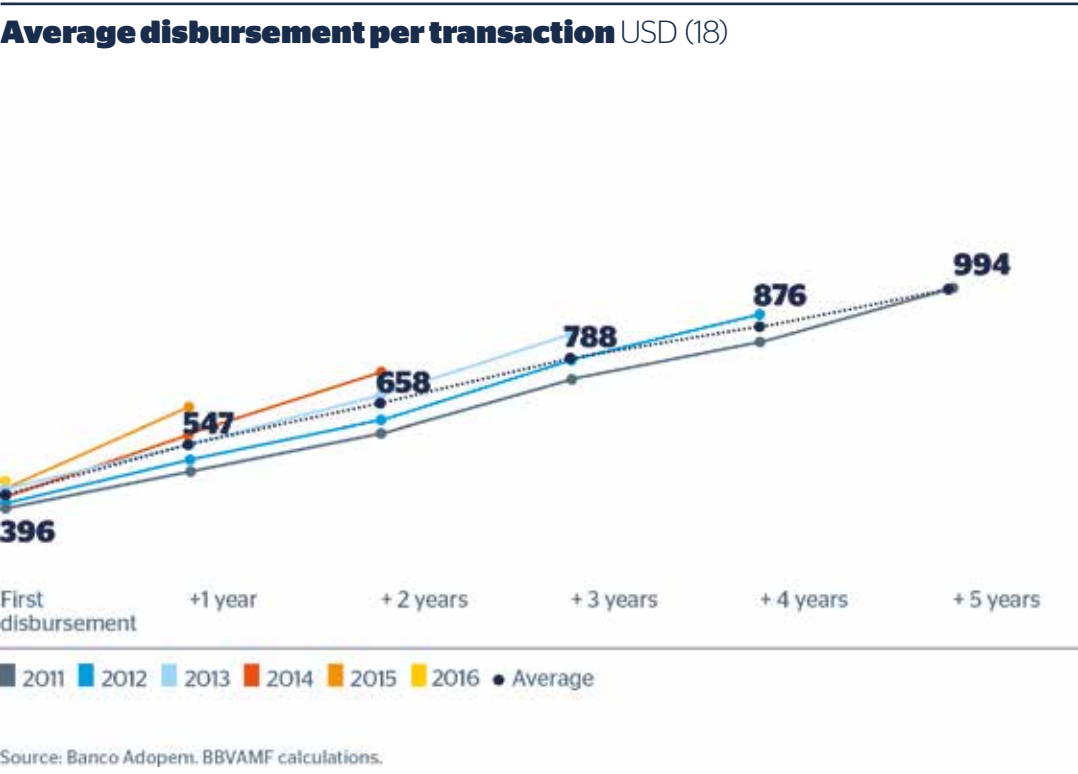
(16) Situation at the outset (SO) and the current situation (CS). Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.



(17) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. 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.

(18) 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.



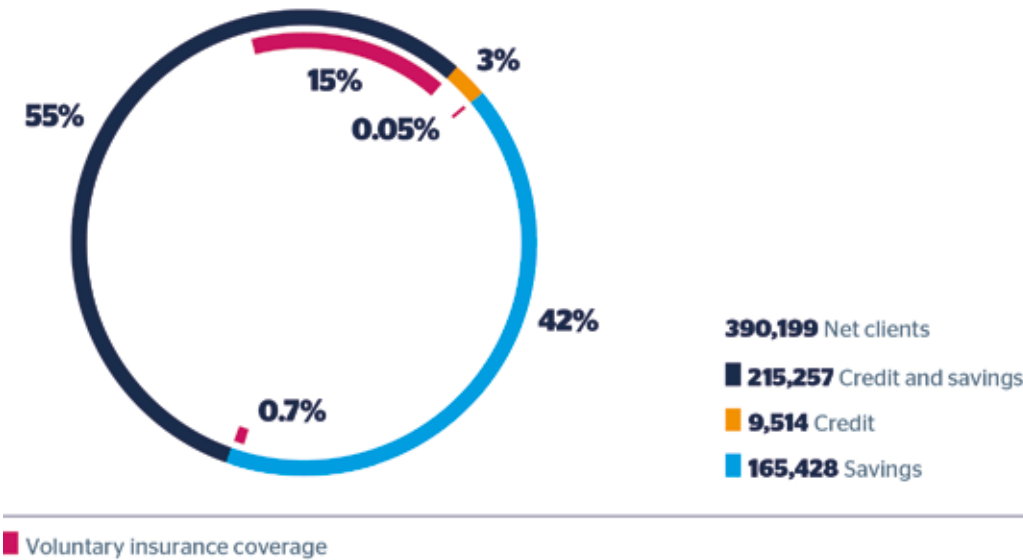
- Nevertheless, there is a group of clients that does not stabilize their incomes because of their vulnerability and fall back into *poverty*; on average 17% after 1-2 years, although this trend wanes over time. Building long-term relationships is key in order to support the progress of Banco Adopem clients (see graph 17).
- In 2016, of the 136,267 clients who renewed a loan or updated their income data, 75,472 expanded their *per capita* net incomes from their microenterprises above inflation, and 24,714 escaped from *poverty*.
- There is continued and steady growth in the average disbursement, at an annual rate of 20% (average 2011-2016 CAGR). Note the slight increase in the incline of the line in the final cohorts: this indicates faster entrepreneurial growth.

Some clients invest in their education, to improve their development. On average 7% of clients improve their education in a 5 year period.

- Most Banco Adopem clients have a loan and savings accounts (55%) and 15% have voluntarily taken out an insurance policy. Savings-only clients hardly ever add to their portfolio of products; only 0.7% also have an insurance product.
- After their first year banking with Banco Adopem, on average 5% of clients manage to take on at least one more employee, and 11% have done so after

- 4 years, which has a positive impact in their communities.
- 35% of jobs in the Dominican Republic are self-employed enterprises. In the case of Banco Adopem, 84% of its clients are in this category.
 - As vulnerability falls, the capacity to take on employees grows (27% of those in the *others* category have one or more employee).
 - After 3 years, 8% of clients succeed in improving their housing conditions, moving from a rented home to their own; which provides a greater sense of security and a better standard of living.
 - One of the main poverty gaps in the Dominican Republic is caused by disparities in schooling levels: 73% of adults with secondary education or higher are financially included vs. just 41% of those with primary education or less (see *Macroeconomic context*).

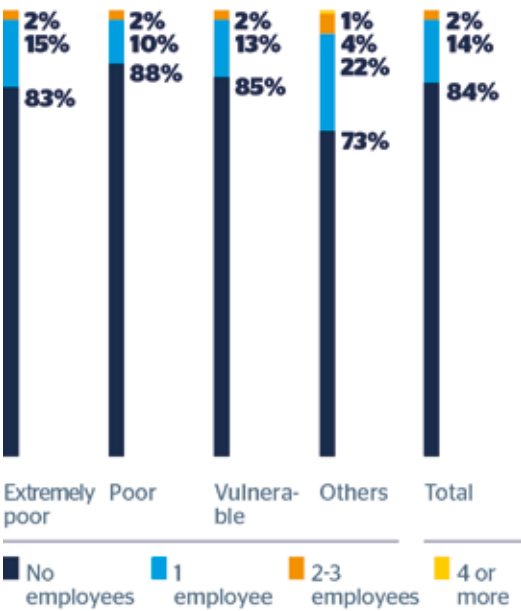
Client linkage by product type (19)



(19) Clients current as of 12.31.2016.

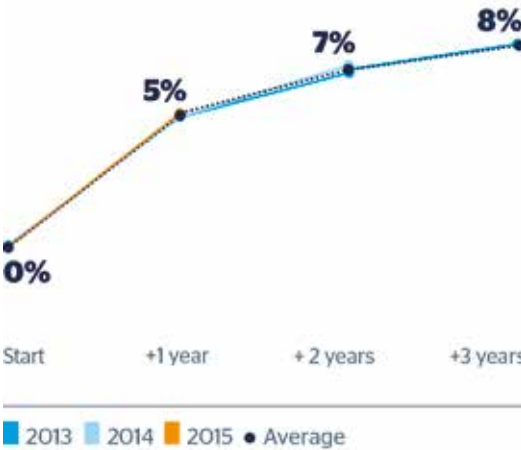
Source: Banco Adopem. BBVAMF calculations.

Microenterprise employee breakdown (20)



Source: Banco Adopem. BBVAMF calculations.

Client improvement in housing (22)



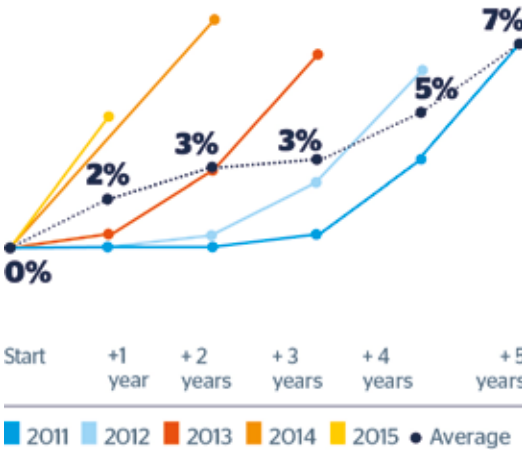
Source: Banco Adopem. BBVAMF calculations.

Job creation (21)



Source: Banco Adopem. BBVAMF calculations.

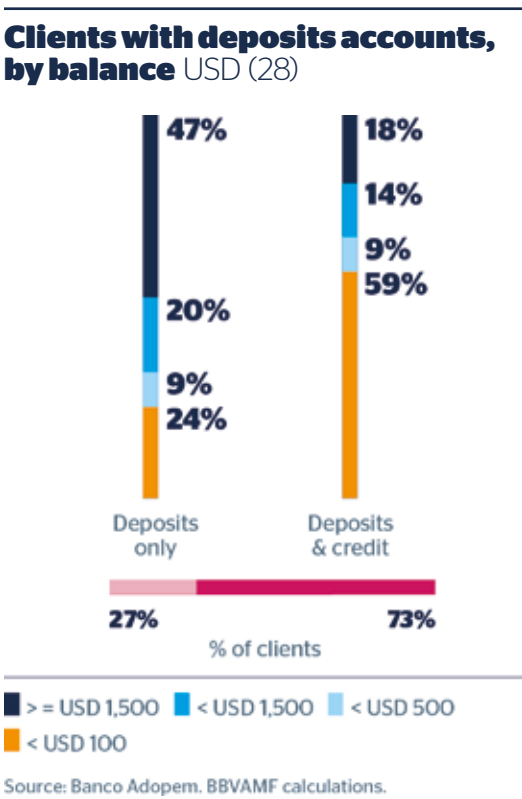
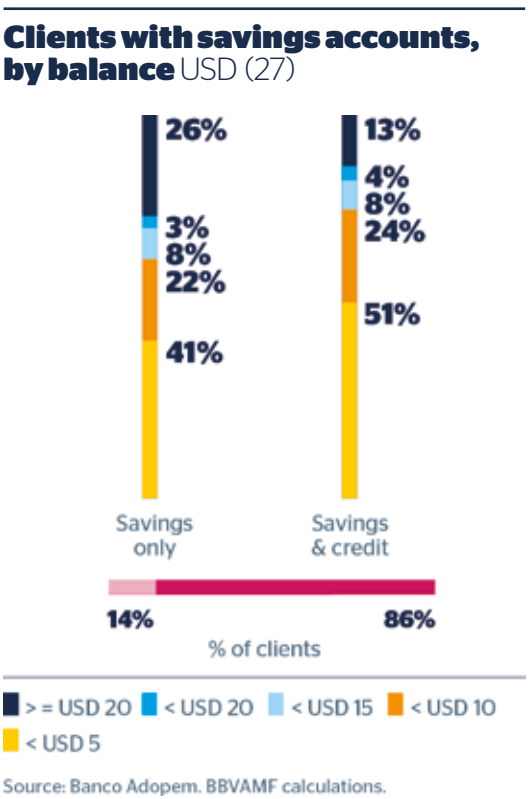
Client improvement in education (23)



Source: Banco Adopem. BBVAMF calculations.

(20) Number of employees in the enterprises of clients current as of 12.31.2016
(21) 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 2011 and 2015.
(22) Proportion of clients still current as of 12.31.2016 in each cohort who have improved their housing conditions, from rented to owned. Averages from cohorts 2013-2015 are shown.
(23) Proportion of clients current as of 12.31.2016, from each cohort that has improved their educational attainment. Averages from cohorts 2011-2015 are shown.

- The number of savings clients has increased by 6.6% in 2016, most of these being savings accounts, with deposits accounting for a small proportion (1.5%) and enjoying limited growth.
- 14% of savings clients have not previously had a loan with Banco Adopem. 28% are former credit clients and 57% have current loans.
- Transaction figures in the accounts are low: only 12% of clients have had more than three movements in the last three months; this behavior has remained unchanged over time.
- These results are in line with the national trend: only 14% of adults in the Dominican Republic conduct more than three transactions a month, and there is a marked preference for using cash (see *Macroeconomic context*).

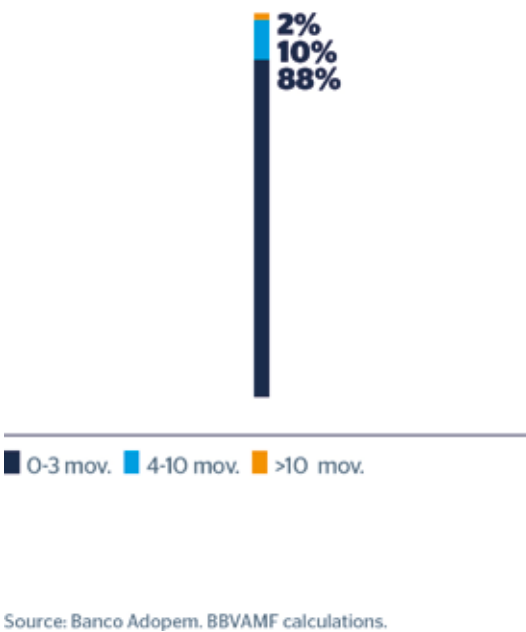


Linkage of savings clients (25)

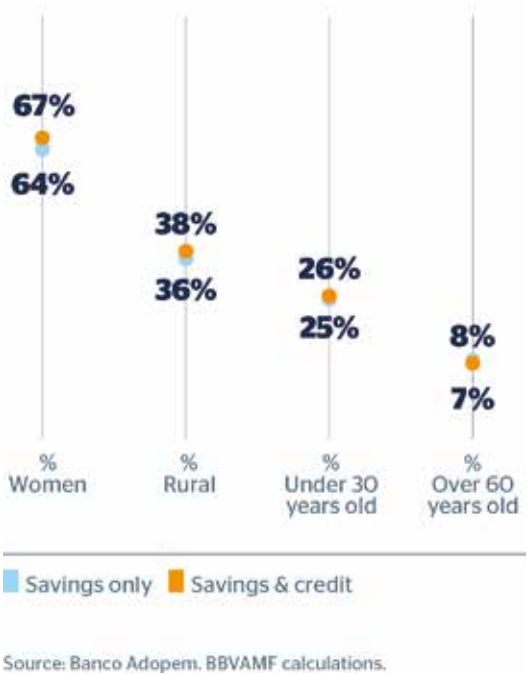


(24) Clients with savings products (savings or deposit accounts) at the end of every year.
(25) Clients with savings products (savings or deposit accounts) as of 12.31.2016.
(26) Breakdown of clients with savings products (savings and deposit accounts) as of 12.31.2016, by n° of account movements in the previous 3 months, excluding administrative movements (interest payments, fees, etc.).

Client breakdown by bank movements/ transaction figures (26)



Profile of savings clients (29)



(27 & 28) Breakdown of clients with savings products (savings accounts/ deposits) as of 12.31.2016, by balance held as of 12.31.2016, differentiating between those who are only savings clients and those who have savings and credits (who have had a loan with the entity).
(29) Breakdown of clients with savings products (savings/deposit accounts) at 12.31.2016, differentiating between those who are only savings clients and those who have savings and credit (who at 12.31.2016 have had a loan with the entity).

- Most clients have savings accounts and loans, with balances of under USD 5. Clients who only have savings accounts (and no loans, at least not with Banco Adopem) in 59% of cases have balances of more than USD 5. In other words, those without debts (and who have not had debts with the institution) have a slightly higher savings capacity.
- In the case of deposits, balances are higher, with a minimum of USD 20. Likewise, those who have, or have had, a loan with Banco Adopem show lower levels of savings. 59% of these have balances of under USD 100.
- Clients who only have savings are more urban; the proportion of women is 64%, a lower percentage than in loans.
- Savings and loan clients are the BBVAMF Group's target.

What really matters

Get to know some of the stories about people that illustrate the work done in 2016 at Banco Adopem.

Diana Céspedes fishes and grows *guineo*, the typical Dominican banana. Yanira Marmolejos began a hair products business with her husband; their nickname is *the King and Queen of gel*. José Rafael Reyes is an advisor with Banco Adopem, serving around 200 vulnerable entrepreneurs.



On board 'La Josefina', dreams can come true

Diana Céspedes starts working at dawn, fishing in the river with baskets she has made herself. Together with her husband and three other family members, she also grows *guineo*, the typical Dominican banana, on her eight hectares of land.



Dominican Republic is one of the world's largest exporters of organic bananas. Around 80% of its production is sold on the international market.

Diana Céspedes is one of thousands of entrepreneurs in this country who grows *guineo*, the typical Dominican banana, and exports her entire production from her eight hectares of land to the European Union. She is one of the leading women in her community. She is Chair of the women's association and one of five women in 'Los Tainos' Organic Banana Producers Cooperative (COOPPROBATA) which represents around 250 producers.

She works with her husband and the expansion of her business has enabled her to take on a further three family members,

with whom she harvests about 20 boxes of *guineo* every week, which she sells for around USD 10 each.

"They told me that Banco Adopem was the bank for poor people. I rang on their door

"I encourage other families to go to Banco Adopem, to become entrepreneurs like me, so that they have a better future and guarantee their children's education".

and they asked me what I needed. They came to my house, saw my plot of land and gave me a loan. I wanted the money to improve as a producer", she explains, as she winds her way through the banana trees.

Diana thinks of herself as a working woman, flexible and enthusiastic. Someone who is not weighed down by the difficulties of life and who makes an effort to get on with things. When she remembers how she started, she feels satisfied with everything she has achieved: two of her children are going to start studying at university and the little one is studying at school.

The agricultural training she has received has enabled her to manage her crops better. She has learned about good farming and

manufacturing practices, fertilization techniques, how to use machinery, as well as product transport and hygiene. This training has given added value to the financing she has received from the bank. "The good thing about Adopem was that they didn't just lend me the money. They also taught me how to use it to invest in my plot of land and in my home", she says, standing by her wooden house, painted in bright colors.

Diana's day starts at dawn. Three days a week, at six o'clock in the morning, she starts up the engine of *La Josefina*, her little boat, and crosses the river of Los Tramojos, the town in Azua where she lives. She casts her homemade fish baskets into the water and patiently waits to return home with the baskets filled with fish. Diana spends time

Name: Diana Céspedes.
Age: 43.
Business: Growing organic bananas and fishing.
Location: Los Tramojos, Azua (Dominican Republic).
Employees: Four, all family members.
Total sum of loans: Five loans totaling USD 4,513 (DOP 210,000).
Other products and services: Savings account. Has received training on good farming and manufacturing practices.
To highlight: Awarded the Prize for Best Quality in Banana Production 2015.

Scan the
QR code and
discover
the story
of Diana





Diana looking after the bananas on her eight hectare plot.

fishing so as to have a second source of income to be able to ensure her children's future. With the DOP 70,000 she received from her most recent Banco Adopem loan she was able to buy this boat.

"I encourage other families to go to Banco Adopem, to become entrepreneurs like me, so that they have a better future, guarantee their children's education, improve their standard of living, get ahead and have a prosperous family", she explains.

Diana is determined that her family will succeed in the long term. And she wants to do it the best way she knows how: farming and fishing. She will continue producing *guineo* and now she hopes to be able to export to Israel and to set up a small fishmonger's on the beach, next to the sand where *La Josefina* waits for her until dawn, when she will once again throw her fishing baskets into the river. ■

"They told me that Banco Adopem was the bank for poor people. I rang on their door and they told me what I needed to do. They came to my house, saw my plot of land and gave me a loan. I wanted the money to improve as a producer."



Diana goes fishing every morning in Los Tramojos river.



From sharing accommodation with others to being nicknamed 'the King and Queen of gel'

Having sold popcorn, sweet bean drinks, ice and clothes at different times, Yanira Marmolejos started selling underwear, taking out an individual loan in Banco Adopem so as to carry on expanding. After that, together with her husband, she opened a natural hair products business.

Yanira has been a saleswoman all her life. She has sold popcorn, sweet beans dessert, ice, domestic appliances and clothes. Her family is a model of achievement. She has gone from living in one room in an alley where 10 families shared a bathroom, to having her own home and being the owner of two successful businesses. Her story demonstrates that everything is possible in life if you don't give up on your determination to get ahead.

"I was living in Villa Juanas when I heard about Banco Adopem. I took out a loan with two other people, we were responsible for one another. After that I started selling underwear and I took out an individual loan with Adopem so that I could

carry on growing. They gave me a bigger loan so I was able to expand my business and I started selling beauty products", sums up Yanira.

That is how *Yafreisy Line* was born, a business that produces natural beauty and haircare products such as shampoo, treatments, masks and nail varnishes. They are innovative, plant-based products at competitive prices. Now they are so well known that in her neighborhood they have been nicknamed "the King and Queen of gel".

The walls of Yanira's business are covered in shelves with colorful bottles of conditioners and masks. The five employees in her business produce the products, bottle them

and take them to their customers' homes. They also sell on the wholesale market and take part in the Dominican Republic's beauty trade fairs.

En *Yafreisy Line* also has other items for hair, such as tiaras and hairbands. Yanira arranges each product carefully in small, different colored baskets that create the visual effect of a rainbow made up of bottles, jars and assorted products.

She and her husband are satisfied with the progress they have made. Not just because they have their own business, but also because they have created jobs for others. They haven't forgotten how tough their beginnings were. That is why they want

to hold out a friendly hand to others who, like them, do not have enough resources to become independent. They do it, they say, because they want to give back what Banco Adopem did for them when it granted them their first loan of DOP 2,500.

"You were the only ones who believed in us; with that money we could pursue our dreams until they came true. We invested in clothes which we sold on the street. With the profits I started selling popcorn, sugar-covered beans, ice, and other things... Yes, it was worth it", recalls this microentrepreneur with emotion.

Before signing up with Banco Adopem, Yanira lived in a rented house. Now she

Name: Yanira Marmolejos.
Age: 37.
Business: *Yafreisy Line*, production of natural beauty products.
Location: Santo Domingo East (Santo Domingo, Dominican Republic).
Employees: Five, of whom four are family members.
Total sum of loans: 10 loans totaling USD 14,432 (DOP 671,500).
Other products and services: Savings account.
Note: Has completed secondary education. Has two children, 15 and 13 years old, both in school. In 2014 she was a candidate for the *Citi Microentrepreneurs Awards* in the *Microenterprise of the Year Grand Award* category. She also contributes financially to a number of community activities. Her husband helps her in both businesses.

Scan the QR code and discover the story of Yanira





Yanira and her daughter posing proudly in their store.



Yanira's husband, standing to the right of an Adopem loan officer.



An employee prepares Yafreisy beauty treatments, face masks and nail polish.

owns her home, has her own business and can fit all this in with looking after her children. “I recommend that women take out loans, as I did, that they shouldn’t be afraid of being entrepreneurs. They should have their own business, because when you set yourself a goal, you reach it”, she says.

Her dream is to become one of the biggest producers and distributors of natural beauty products in the country. To achieve it, Yanira has two important qualities: she is an expert saleswoman and a fighter, who is determined to carry on bettering herself while helping others who are also starting out with nothing.■

“I recommend that women take out loans, as I did, that they shouldn’t be afraid of being entrepreneurs. They should have their own business, because when you set yourself a goal, you reach it”.

The satisfaction of feeling useful

Since he was a boy, José Rafael Reyes saw himself working in a bank. The opportunity of seeing from the inside how a bank works allowed him to discover his passion for the world of finance, the value of teamwork and the importance of personal growth. He fits his job in around his Economics studies, majoring in financial management, in Santo Domingo's Catholic University.

José Rafael is an honest, generous, empathetic and competitive young man. He enjoys challenges and is a natural dreamer. He has been a loan officer with Banco Adopem since 2011. He likes his job. In fact, since he was a boy, he has seen himself working in a bank. The opportunity of seeing from the inside how a bank works allowed him to discover his passion for the world of finance. He began as an officer for group loans. A year later he started as a microenterprise officer, a post he held for three years, and he is currently an officer for small companies. He fits his job in around his Economics studies, majoring in financial management, in Santo Domingo's Catholic University.

The distance he has covered means that he has always had his feet on the ground. "It is one of the things that keep me steady and focused on what I want for my life. I have achieved a lot of things that I would never have thought were possible when I was younger", he explains.

Working day

He starts his working day studying his customer portfolio, analyzing the indicators that need monitoring, and begins his daily round of calls to entrepreneurs managing loans and collections, always trying to make his day as productive as possible. José Rafael supports and advises around 200 vulnerable entrepreneurs. Most of them are small merchants who sell food, clothes and other items in markets.

"I work with all my co-workers in the branch (officers, cashiers, service staff, transactions, etc.) because the key to Banco Adopem's success is teamwork; that's how we achieve the goals we want to reach. Everyone in the branch does their bit to contribute to the results and that is why I try to have a pleasant working relationship with all my colleagues", explains José Rafael.

Once the administrative tasks are done, he starts driving to visit entrepreneurs in their

small businesses. Every entrepreneur has a story that is worth telling, of overcoming difficulties and effort. José Rafael remembers the one about Olga Lidia Araujo, who has been supporting her family since her husband became sick and how she has managed to do it thanks to her skill in drawing. José Rafael advised her on how to get the loan she needed to set up her small business decorating event venues.

In the afternoon, José Rafael returns to the office and runs through the day's events with his supervisor, discussing the work he has done and reporting on customers' news before planning together the strategies to follow.

He finds advising customers very satisfying inasmuch as he is helping them to start up their business or, in the case of existing businesses, to increase their margins. He also remembers Dayra Soto's story. "This customer needed help and advice, because she and her husband were unemployed. They made handbags but they didn't have enough capital to buy the machinery or raw materials to start the business. We gave them a loan and now they have orders for over 300 handbags a month, and the possibility of increasing their production", he relates, proud of having helped them get ahead.

Experience and training

He explains how the institution's own growth drives him on a daily basis. "I like working in Banco Adopem because I am sure that here I will go far, there are opportunities for growth that I want to make the most of and that is why I am giving the best of myself, to be able to meet the targets they set me. And not only that; the way the bank treats its employees creates an atmosphere that I find really satisfying."

In the five years that José Rafael has been with Banco Adopem he has broadened his professional experience, both in terms of knowing his customers and their needs, and in developing his own job. "The training



José Rafael visits one of his clients at their enterprise.

courses I have gone on in Banco Adopem have been the foundation of my skills development in microfinance. They have taught me methods for succeeding in the institution, as well as promoting my professional growth, because they prepare us to face challenges in the future and to be capable of leading our own teams."

He dreams of forming part of the team that takes the decisions and creates strategies so that the institution can continue the sustained and high-caliber growth it has enjoyed to date. As well as this, he wants to be a role model for other people so that they see that it is possible to do well if you stick to your plan and persevere until you achieve the goals you have set.

In the short term he hopes to build a house for himself, a comfortable place where his family has what they need to get by. He is anxiously waiting the birth of his firstborn girl, to whom he wants to give a good education. In the professional ambit, he wants to finish his university studies with a Master's in Business Administration, majoring in finance. ■

Microfranchises: encouraging turnkey microentrepreneurship

In 2016, the existing microfranchising model between Banco Adopem and Nestlé was formalized in order to extend access to stable and profitable business opportunities to more microentrepreneurs. Furthermore, the Nestlé product being sold, which is of high nutritional value, is sought after by the community where the client lives, thus generating a positive effect for the community as a whole.

Microfranchising is a well-known strategy for developing entrepreneurial capability and increasing income levels among disadvantaged population groups. It is based on a tested business model, which has been standardized and can easily be used “off the shelf”, based on establishing alliances that generate business opportunities. In the case of the Adopem-Nestlé microfranchising model, the parties complement one another, guiding and supporting people with little or no business experience so that they can become owners of predefined businesses, offering work opportunities to those without easy access to the job market. The program is based on a successful tried-and-tested

model that promotes financial inclusion among micro-distributors and partners, as well as healthy eating.

Microfranchising: designing an assisted development model

Plan Barrio is an innovative, highly social impact business strategy developed by Nestlé Dominicana, as part of its *Shared Value Creation* policy. It was implemented by the company in 2006 to develop sustainable businesses, offering training and nutritional information. During the *Plan Barrio* project, Nestlé identified financing gaps (working

capital, collections) and, as a result, the problems their micro-distributors were having in accessing financial products, together with the need to reinforce financial education. It is for that reason that in October 2012 the firm contacted Banco Adopem in search of viable solutions to solve the problems with the model’s financial management. So it was that Banco Adopem became a key ally, thanks to its credit experience and portfolio of financial products, its understanding of the microdistributor profile (target client for the institution) and of the environment in which they operate.

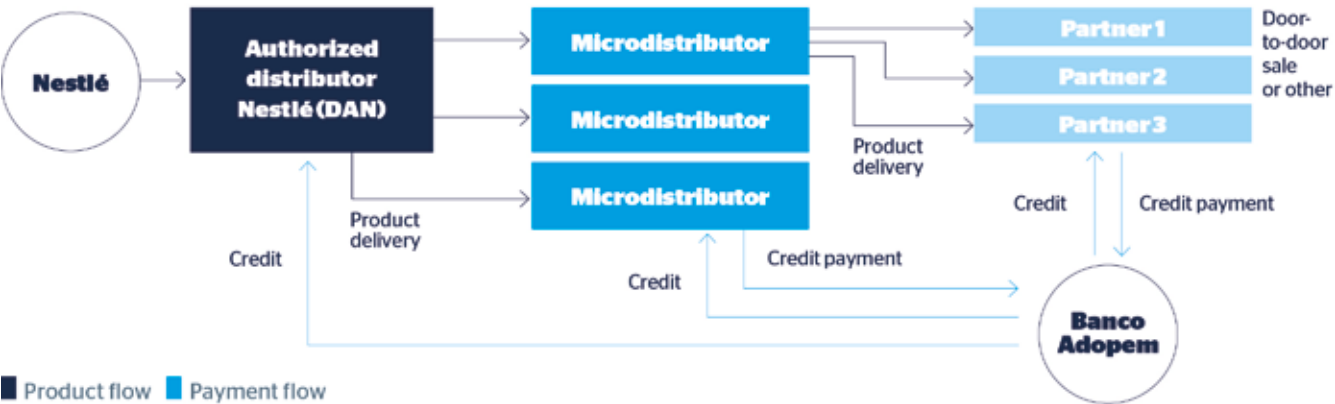
The resulting Adopem-Nestlé microfranchising model was trialed in a pilot between October 2012 and December 2013 in 13 Banco Adopem branches, for the purpose of validating Nestlé’s microdistribution operating and sales areas. The distribution channels were shown to be effective and the nutritional product portfolio enjoys healthy demand.

The program was made permanent in October 2014, defining its structure, process and geographic area covered. An agreement to scale up the model was signed with Banco Adopem, Nestlé and the Interamerican Development Bank (IDB), in order to extend access to stable and profitable entrepreneurial opportunities to more microentrepreneurs.

As of September 2016, there are 1,659 microfranchisees, of whom 159 are micro-distributors (MD), 1,500 are active partners and 275 (MD and partners) are Banco Adopem⁽¹⁾ clients.

A *Combo* hamper of Nestlé products is available through a two-layer distribution network: microdistributors (MD) who buy the Nestlé products, and partners, who buy products from the MD and make door-to-door sales and/or use other sales methods depending on the communities’ social interactions. Both parties can be Banco Adopem clients.

Description of the Adopem - Nestlé microfranchising model (a)



Nestlé's role

- Distribution: Ensuring an effective distribution chain, with no hold-ups. Defining the delivery route through authorized distributors.
- Product: Defining a product basket adapted to the consumer's needs (the Combo), which requires building a close relationship with the micro-distributor (MD).
- Marketing: Creating all the sales material necessary to sell the product.

Banco Adopem's role

- Financial: delivering the credit to:
 - Microdistributors (MD) to buy the Combo product basket which is paid back monthly. The contract is signed with the MD, but credit can be delivered to the MD or the DAN.
 - Partner for sale of product door-to-door or by other method, with cash disbursement.

Adopem-Nestlé's joint Role

Educational: Training workshops for MDs and partners, eg. business management, promotional offers, cookery workshops, nutrition conferences, guidance and mentoring in business development.

Source: Banco Adopem, Nestlé, BBVAMF.

Microfranchising program footprint (b)



Communities with microfranchising programs in place

Source: Banco Adopem, Nestlé.

Nestlé has developed a solid relationship with the MD, testing and promoting new products, which has meant that the program has contributed to the promotion of nutritious products in areas where these had not been obtainable. This management style, all through the value chain, is an ingredient in a wider shared-value project that Nestlé is developing throughout the group to use resources more efficiently and to achieve greater impact in the community.

Banco Adopem finances these entrepreneurs' productive activities and makes all its products and services (remittances, savings accounts, microinsurance, mobile transactions and the possibility of forming part of its savings groups) available to its clients. Most of the credits are granted to the MD and a strategy is currently being defined to increase the number of partners so that the program has more geographical coverage and greater stability.

Furthermore, clients take part in a range of activities run jointly by Banco Adopem

and Nestlé, such as training days, cookery workshops, nutrition courses and community meetings; there is a *Madam Ambassador* program (a group selected from the program) to support other women microfranchisees.

Each territory has limits designated by numbers of homes and inhabitants, to ensure the micro-enterprise's viability. The program is nationwide, in areas that are established by Nestlé and can be served by a Banco Adopem branch.

The model was trialed in a pilot between October 2012 and December 2013. The distribution channels are effective and the nutritional product portfolio enjoys healthy demand.

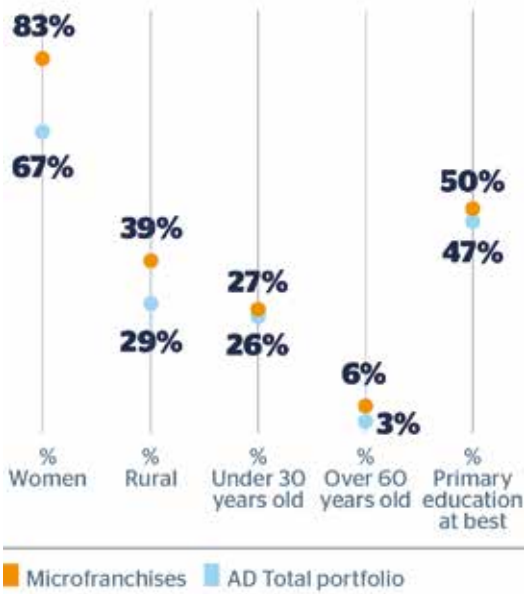
A stable model that supports Banco Adopem's target client

The *Microfranchising* program is aimed at women (mothers, 'female heads of household') who are Banco Adopem clients, selected by the institution and Nestlé for their sales skills and entrepreneurial potential: they are Banco Adopem's target 'client profile', with a slightly higher ratio of clients below the poverty line than Banco Adopem clients taken as a whole: 46% of microfranchising clients are classified as *poor* or *extremely poor* vs. 31% of total clients.

433 loans have been granted to 368 clients since 2012, for a total of USD 236,428⁽²⁾. Of all clients served, 275 are still current. The analysis has been carried out on these.

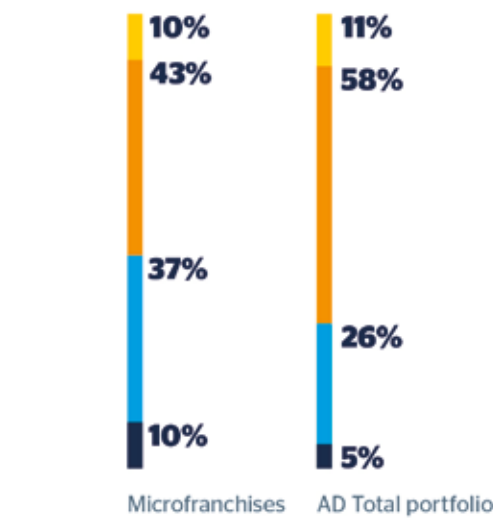
The program also provides training in a number of areas (nutrition, business, etc.) and the first surveys reveal that 100% feel that it has helped them to improve their standard of living, while over 85% state that they have improved their sales levels thanks to the training received.

Microfranchising client profile (c)



Source: Banco Adopem, Nestlé, BBVAMF analysis.

Economic vulnerability (d)



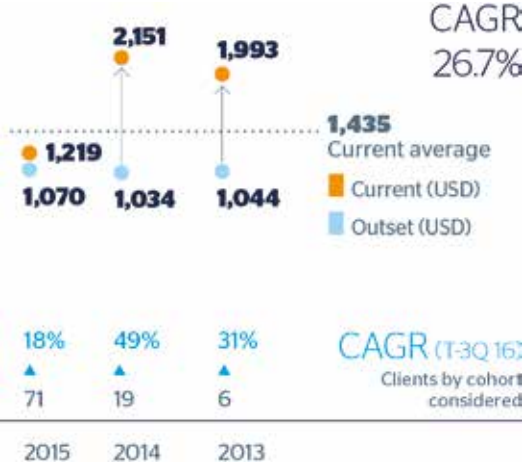
Source: Banco Adopem, Nestlé, BBVAMF analysis.

275 women raised their household income by 33%

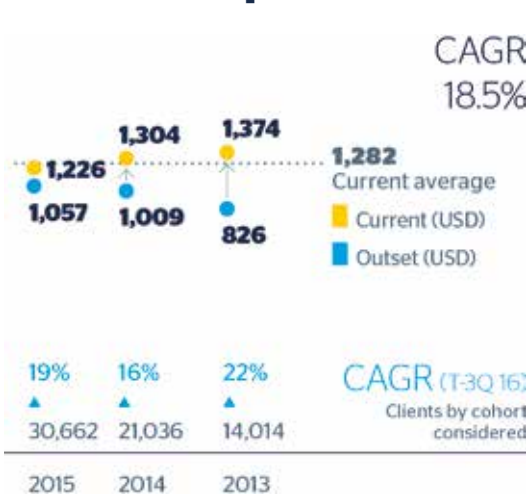
It was assumed that the program helps to generate stable business opportunities and sources of revenue for low income micro-entrepreneurs. This hypothesis has been confirmed: we see a faster or similar rate of growth in microfranchisees' sales as in clients as a whole, as well as improved margins: net incomes grow more quickly than sales, particularly in the case of microfranchising clients.

Microfranchising is viewed as a safe business model, given that it entails the back-up of a brand with a certain track record and know-how in product operations and marketing; this is shown in solid rates of growth in sales and margins. It also means that these enterprises are within the reach of people with neither experience in running businesses, nor the capital to start one from scratch. The risk of failure is also considerably lower, in comparison with recently created businesses, because the enterprise grows in line with a pre-existing structure, which has already been tested and already generates profits.

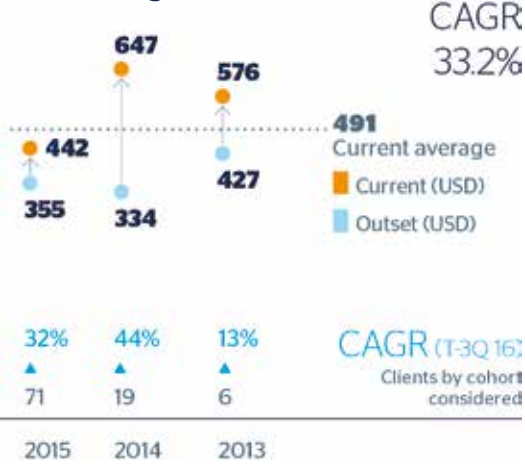
Growth in microfranchising sales (e)



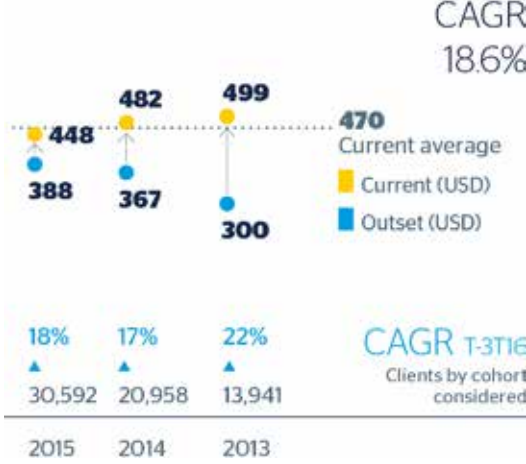
Growth in total portfolio sales (f)



Growth in microfranchising net incomes (g)



Growth in total portfolio net incomes (h)



Microfranchising is viewed as a safe business model, given that it entails the back-up of a brand with a certain track record and know-how in product operations and marketing. This is shown in solid rates of growth in net incomes (33%) and sales (27%) in comparison with clients of the portfolio as a whole.

Nestlé staff play an important role in explaining product characteristics, encouraging a proactive sales strategy (eg. special offers and promotions) and provide training in nutrition and access to technology (eg. smart phones). They also monitor the client in conjunction with Banco Adopem and provide additional training support down the line, if required.

Between 2012 and September 2016, 1,647 micro-franchisees⁽³⁾ altogether have received training. The training sessions are highly appreciated by the MD and partners, since over 85% of those interviewed stated that the training had improved their sales levels⁽⁴⁾.

Overall, the program has brought new opportunities to generate income to some microentrepreneurs who were excluded from the banking system, and 100% confirm that the program has helped them to improve their standard of living⁽⁵⁾. The program brings with it intangible social benefits, that the MD and partners value, such as, for example, the satisfaction of having succeeded in meeting the goals set, and of reaching tangible targets, the feeling of belonging and developing leadership skills. Being part of a microfranchising network transmits confidence and self-esteem, quite apart from the economic benefits.

To conclude, the purpose of microfranchising is to generate an additional source of income and local job opportunities. It starts with the advantage that generating return for the master franchisor (Nestlé) is not an important consideration in this case, although the sustainability of the microfranchising network is important in the medium term. ■

Looking beyond the numbers: training

The microfranchising concept goes hand in hand with training, given that all franchisees receive training about the product and in developing sales skills. The training model (carried out jointly by Nestlé and Banco Adopem) is adapted to the management of a retail enterprise selling products. Nestlé and Banco Adopem write a business plan that sets out guidelines on, for example, how, where and when to sell, who the competitors are, together with some management insights. So, clients have taken part in modules such as *Business Plan Development, Managing Money, Human Development, Sales Techniques, Coaching Techniques* and *Women entrepreneurs*.

(e, f, g & h) Data on clients current as of 09.30.2016 and who have made any disbursement in the previous 12 months. Situation at the outset (data in their cohort year) and the current situation (latest update) as of 09.30.2016. CAGR: Compound Annual Growth Rate.

Source: Banco Adopem, BBVAMF analysis.

Notes (1) Banco Adopem clients current as of 09.30.2016 who have taken part in the microfranchising program at some point. (2) DOP 10,904,100 at the exchange rate on 09.30.2016 of DOP/USD 0.02168. (3) Of the total 1,880 franchisees (not only with Banco Adopem, but the whole program), 1,647 have taken part in at least one training session. (4) Business and enterprise consultancy, conducted by NGestión Consultoría for Banco Adopem, currently underway, to be completed in February 2017. Survey conducted on 70 partners, all women, in 2016. (5) Business and enterprise consultancy, conducted by NGestión Consultoría for Banco Adopem (see previous footnote).

Agent banking: an alternative channel that is secure and nearby

Banking agents act on behalf of the bank in drugstores, grocery stores and other retail outlets and are a key channel for increasing the institution's capillarity, reaching inaccessible and vulnerable clients, who prefer to handle their financial affairs through *contacts whom they know*. They account for 60% of transactions carried out through alternative channels. The agent is a person who links the population, which may be unbanked, with financial institutions, reducing informality and increasing financial inclusion.

In June 2014 the institution opened up a new service channel: agent banking [*sub-agentes bancarios* (SAB)], also known as *Adopem Express*⁽¹⁾. Since 2016 this alternative channel has been reinforced so as to offer greater security and geographical proximity to clients in remote areas.

What are banking agents?

They are physical or legal persons who act on behalf of the bank in commercial establishments, such as minimarts, grocery stores and drugstores, mainly in neighborhoods outside the city center and rural areas in the middle of the country. At the moment they can conduct a series of transactions, authorized by the Banking Authority, such as loan

installment payments, deposits, withdrawals and paying into savings accounts. The channel has a positive impact on those with low incomes who live in remote areas with no banking branches, since it increases security and reduces the cost of accessing financial services: it reduces the transport cost of reaching the bank branch and the time during which the business is closed while away at the bank.

Types of banking agents

There is a wide variety of types of banking agents, from stationer's to supermarkets, but they tend to be in drugstores, retail stores, general stores and grocery stores, big and small. Drugstores tend to become banking agents because their customers trust them.

The biggest businesses (with an average of eight employees and around 178 transactions a month) account for 25% of all agents; medium-sized banking agents account for 42% (with an average of three or four employees and 117 transactions a month), and small agents make up the remaining 33% (with an average of one or two employees and 119 transactions a month).

Banking agents not only have an operative role, but also promote the institution in their neighborhood. It is a channel that transmits security and convenience; as such, it encourages clients to manage their savings.

Banking agents also offer advantages from the institution's perspective:

- The costs per transaction are lower than in-branch
- It frees up loan officers from some routine transactional tasks allowing them to focus more on their sales activity, which increases their productivity.

As of September 2016, these transactions were being carried out through 123 banking agents; together with the 73 branches they make up nearly 200 service points, providing coverage to every province in the country.

Functionalities of the banking agent

As of the close of the third quarter 2016, 141,471 monetary transactions were conducted through agent banking; 44% more than over the same period in 2015, representing 60% of transactions effected using alternative channels.

Type of agent banking (a)



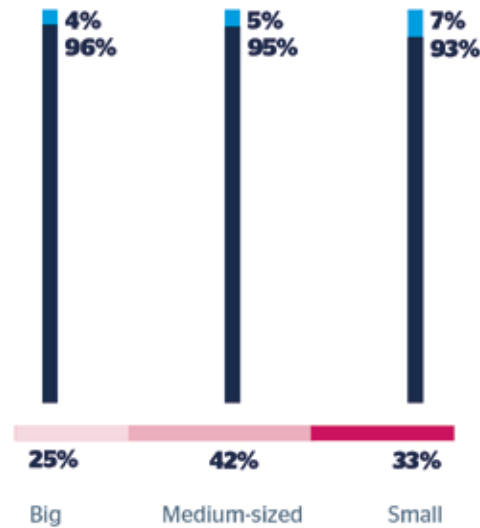
123
Total banking agents

- General stores
- Drugstores
- Minimarts
- Retail stores
- Other

Source: Banco Adopem, Nestlé, BBVAMF analysis.

(a) Data to September 2016.
(b) Number of transactions in September 2016. The cash withdrawal option is being developed: there are currently 11 service points offering this as a pilot scheme.

Transactions by size (b)



- Loan payment
- Deposit
- Breakdown of banking agents

Source: Banco Adopem, Nestlé, BBVAMF analysis.

Types of transactions

When we analyze those clients operating through bank agents, the preference for credit transactions is clear: 94% of these transactions were to pay loan installments, with the remaining 6% to make deposits and withdrawals⁽²⁾. If we look year on year at 3Q2016 vs. 3Q2015, we note the same rate of growth in the number of transactions as in the number of clients (27%). However, there is also a gradual increase in the number of clients operating through the agents to manage their savings accounts, rising from 1% of clients who used these means in September 2014 (45 clients) to 5% in September 2016 (1,047).

Banco Adopem is working to create awareness among clients that they can carry out their transactions with agent banking, so the proportion of transactions using this channel is expected to double by this time next year.

Transactions by alternative channel type (c)



Source: Banco Adopem, Nestlé, BBVAMF analysis.

Evolution of clients and transactions (d)



Source: Banco Adopem, Nestlé, BBVAMF analysis.



Source: Banco Adopem, Nestlé, BBVAMF analysis.

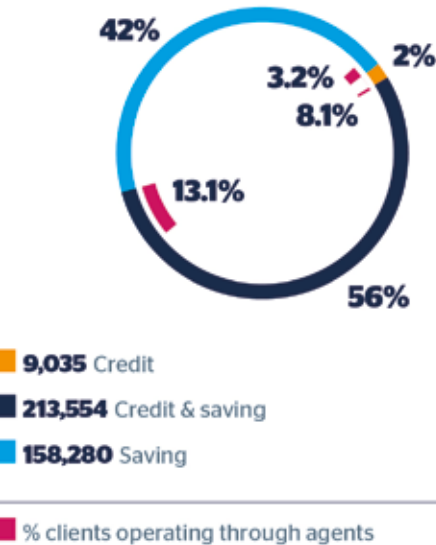
The role of the banking agent

Banking agents, all of whom are Banco Adopem clients, have become strategic partners. As well as their operative role, they also promote the institution in their neighborhood⁽³⁾. As of September 2016, they had referred 197 clients and encouraged the opening of 151 savings accounts. Given their importance, and in order to ensure service quality, every year Banco Adopem organizes meetings for all the banking agents to provide client service training and to create a forum for sharing experiences and case studies.

This is the only channel with capacity for deposits, loan installment payments and withdrawals, apart from the branches themselves. It is a channel that transmits security and convenience; as such, it encourages clients to manage their savings.

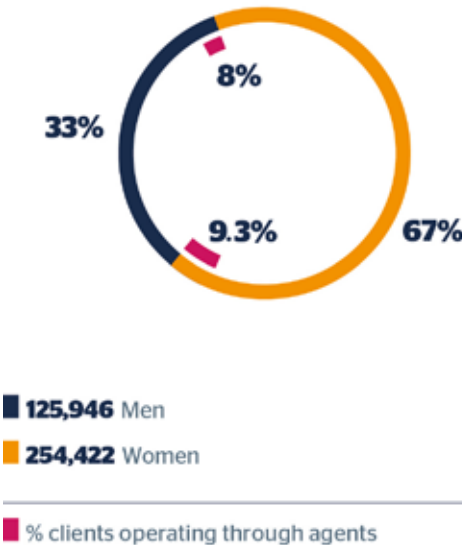
Every year Banco Adopem organizes meetings for all the banking agents to provide client service training and to create a forum for sharing experiences and case studies.

Transaction figures by linkage category (e)



Source: Banco Adopem, Nestlé, BBVAMF analysis.

Transaction figures by gender (f)



Source: Banco Adopem, Nestlé, BBVAMF analysis.

(c) Accumulated transactions between January and September 2016; does not include:
• Transactions through bank branches or the loan officer, i.e. transactions made out in the field.
• Outbound calls from the call center, i.e. calls made by the call center regarding collections or for sales campaigns, surveys, etc.
(d) Number of transactions, distinguishing between credit and savings transactions. Number of clients by type of transaction.

(e & f) Clients current at 30.09.2016 classified by profiles, only considering transactions made in 2016.

Level of business,
by client profile

The client group that does most business with the institution is the one that has linkage through credit and savings, with 13.1% of this client profile conducting transactions through bank agents; vs. only 8.1% of clients who are linked solely through credit. A mere 3.2% of savings-account only clients use banking agents.

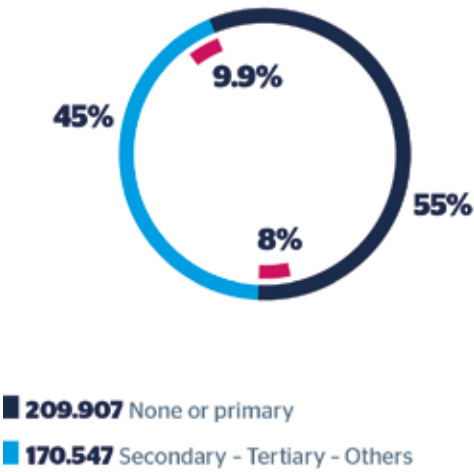
There are significant differences by environment and vulnerability:

- Environment: Clients in the urban environment have higher levels of business (10% urban vs. 6% of clients in the rural environment)

- Vulnerability: The greater the poverty level, the higher the transaction figures through banking agents: 14.7% of clients classified as *poor* and *extremely poor* carry out transactions through bank agents vs. 12.4% of clients classified as *vulnerable* and 11% of the *others*.

In the other profiles (gender, age and educational attainment), the differences are less acute. With very minor differences, women carry out more transactions, as well as clients under 60 years old and those with secondary education or higher.■

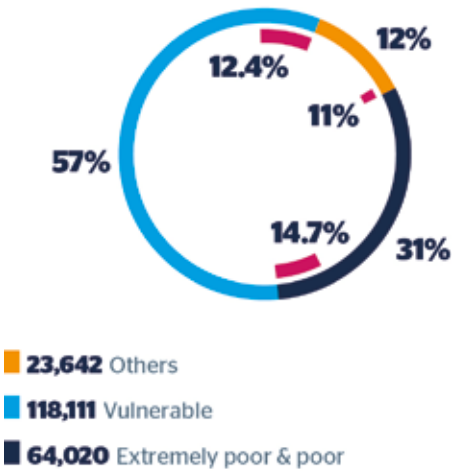
Transaction figures
by education status (g)



■ % clients operating through agents

Source: Banco Adopem, Nestlé, BBVAMF analysis.

Transaction figures
by vulnerability (h)



■ % clients operating through agents

Source: Banco Adopem, Nestlé, BBVAMF analysis.

(g & h) Clients current at 09.30.2016 classified by profiles, only considering transactions made in 2016. The client's *economic vulnerability* was classified using the update nearest to 09.30.2016 (the latest available).

(1) Equivalent to correspondent banking. (2) Transactions from January to September 2016. The option of making withdrawals is being piloted and represents less than 1% of transactions. (3) Banking agents receive a fee for handling deposits, withdrawals, installment payments and for referred clients.



The fastest growth rate in the region

The Dominican Republic has grown at an average rate of 7.0% over the last three years, making it one of the highest in the region, which has impacted on the labor market, with increased rates of employment, and a 16% rise in the number of people who are banked, although 36% of adults are still excluded. What is more, 32.3% of the population remains under the poverty line.

In the first nine months of 2016, the Dominican economy was strongly dynamic, driven by mining (22.3%), construction (12.2%), farming (10.6%), trade (6.7%), hospitality services in hotels, bars and restaurants (5.9%), transport (5.3%) and local manufacturing (5.3%). All these activities together made up approximately 80% of the Dominican economy's growth⁽¹⁾, which came in at 6.9%⁽²⁾ over this period. Over the year, the economy is estimated to have grown by 6.5%⁽³⁾.

GDP growth *per capita* was 5.2%, bringing average growth over three years to 5.8%, one of the highest in the region. This had an impact on the strong rally in household consumption which is estimated to come in at 4.3% to the end of 2016. Turning to expenditure, at the end of 2016, real growth of total consumption is estimated at

4.9%, 17% in the case of investment, 3% in exports, and 4.1% in imports.

The robust boost in investment is dependent on non-tradable sectors, specifically on road infrastructure and tourism, as well as the construction of schools and social housing. The economy has grown for the third consecutive year above its potential and is expected gradually to reach this potential, around 5%, in the next few years.

The Dominican economy is determined by three key factors. The first is the excellent performance of the tourism sector, which in 2016 continued to report highly dynamic revenues. The second is family remittances, which reported a record year. The third and final factor is the sustained downward trend in international prices of petroleum and its derivatives.

The first two factors offset the lower contribution made by exports, and have brought down the current account deficit in 2016, which will close the year at 1.7% of GDP, the lowest level since 2004. This improved performance in the external sector has made it possible to maintain the smooth convergence of the Dominican peso, in equilibrium with the real exchange rate, which depreciated 2.8% against the US dollar, a performance similar to the previous year.

The fall in fuel prices has meant that even though the Dominican economy is growing above its potential, we have seen rock bottom inflation levels in the country over the last three years.

We estimate that consumer inflation will stay below the central bank's lower target thresh-

Economic growth in the Dominican Republic is one of the highest in the region, but 50% of employment is still in the informal economy.

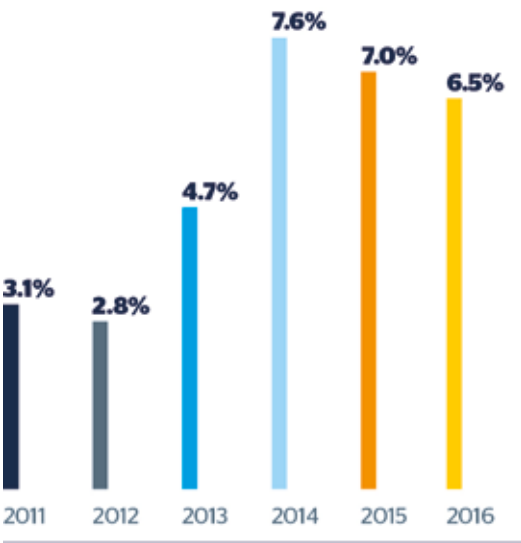
old of 3%, closing at 1.7%, in a year marked by five months of deflation (a fall in the price index). Despite this the central bank, after leaving the monetary rate untouched for 16 months, adjusted it at the end of the year by 50 base points, to close at 5.5%.

This decision has created the expectation that current levels of inflation are temporary and that, once the base effects from the fall in energy prices have passed, as well as the impact of the recent trend of higher International oil prices, inflation will return to the band set by the central bank (between 3 and 5%). Inflationary pressure from the monetary rate, after correcting for exogenous effects, is reflected in core inflation, which stands at 1.9%, still lower than it has been in recent years.

Labor market

Growth shown by the economy has had an effect on the labor market⁽⁴⁾, where there has been a significant rise in the Employment rate, offsetting the increase in the country's active population. The proportion of occupied people among the population of working age has increased by 80 bp in the last year, up to 56.6%. In the last six years it has risen by 3 percentage points, showing greater use of the active population.

Real GDP growth



Source: Dominican Republic central bank. 2016 figures have been estimated by BBVAMF Research.

This has meant that the 40 bp increase in the population of working age has been absorbed, with 65.2% of the labor pool taking an active part in the labor market. The performance of both variables is shown in a fall both in the open and in the broad unemployment rates, by 40 and 70 bp, respectively, which posted at 5.5% and 13.3% at year end.

The Ozama, Metropolitana and Este regions are the best performers on these indicators, with the highest rates of occupation and participation. Nevertheless, the lowest rates of unemployment are in the northern Cibao region, mainly due to the fact that it has the lowest labor force participation rate. The southern region displays the lowest employment rates, although the Metropolitana region has the highest rates of unemployment.

The Dominican Republic has a working age population of 7.3 million people and an economically active one of 4.6 million. About 2 million have formal jobs, another 2 million work in the informal sector and the remaining 600,000 are unemployed. Around 243,000 workers are underemployed and work by the hour, and the potential labor force is 380,000 (looking for employment and available to work). If we add the unemployed figure to this, 20% of the broader work force (including potential workers) is actively looking for work.

In terms of structural employment, half of those occupied are working in the informal sector. Of these, 57% do not receive an acceptable proportion of the labor benefits provided for by law.

26% of all informal employment is in trade, 17% in agriculture and stockbreeding, 13% in construction, 12% in transport, 9% in hospitality services in hotels, bars and restaurants, and the remaining 23% in other sectors. This structure is very similar to employment distribution for lower

income segments, which mainly operate in the informal economy.

The bulk of small one-person enterprises is in the retail or services sectors, representing the main source of self-employment, which accounts for 35% of all employment.

Poverty and inequality

Despite the robust growth of the Dominican economy, 32.3% of the population is still in households with incomes below the poverty line⁽⁵⁾. In rural areas poverty stands at 40.4%⁽⁶⁾, while in urban zones it is 28.4%⁽⁶⁾, with the structural persistence between those two areas unchanged.

It is the first time that the poverty ratio has fallen to the levels of 2000-2002, prior to the 2003 crisis. Most of this progress has occurred in the last two years, the period in which poverty has fallen by around nine percentage points, 68% of which is accounted for by the effect of robust growth over that period, while the remaining 32% has been the result of distributive improvements in household income. The combination of the nominal income improvement with a low inflationary environment boosted real household incomes.

38% (approximately 1.6 million) of the people who were in a situation of poverty at the close of 2013 have escaped it. However, they are still very vulnerable and these achievements must be built on in order to extend the distance from poverty so as to be able to absorb unexpected shocks.

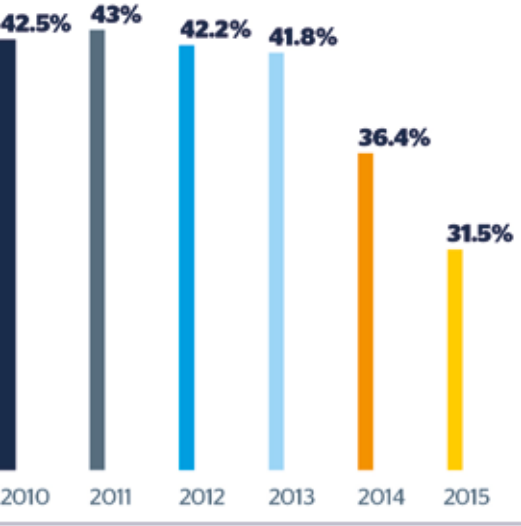
This progress in terms of poverty has occurred in tandem with a reduction in levels of inequality inasmuch as the Gini index (a coefficient with a value range between 0 and 1, that represent perfect equality and maximal inequality, respectively), has fallen from 0.476 at the close of 2013 to 0.454 currently. This reduction was the result of

32.3% of the population remains poor and inequality has fallen more in urban areas.

the allocative improvement in urban zones, edging down from 0.485 to 0.458. In rural zones, where incomes are less concentrated, this has worsened over the period, rising from 0.388 to 0.399.

Although the improvement in terms of inequality has been constant over the last ten years, both in rural and urban areas, the better relative performance in the latter is accounted for by greater recovery of real incomes associated with waged employment.

Poverty (% total population)



Source: Ministry of the Economy, Planning & Development (MEPYD).

Financial inclusion

In terms of access to the financial system,⁽⁷⁾ as measured by possession of a bank account, in the Dominican Republic 54% of adults are banked, a marked advance on the results of the previous assessment in 2011, in which only 38% of adults had accounts in financial institutions. This is one of the few countries in the region, indeed the world, in which women have greater access (56%) than men (52%).

One of the main causes of the disparity is determined by levels of schooling. 73% of adults with secondary education or higher are financially included, whereas only 41% of those with primary education at best have a bank account.

Another important reason for the gaps in financial inclusion is, as one would expect, income levels. 63% of the segments in the higher income percentiles (the highest 60%) have access to the financial system, whereas among those in the lower income brackets (the lowest 40%), only 42% are banked.

In terms of usage, 53% of adults requested a loan in the previous 12 months, however only 18% requested it from a formal financial institution, whereas the remaining 35% of adults asked their families, friends and/or informal lenders for the money.

On savings, 57% reported having saved some money the previous year, but only 26% did so in formal financial institutions (i.e. the remaining 74% was kept in informal systems, which are less secure). This low rate of use of formal financial institutions is proof that people are prepared to take on high credit costs, and tolerate less security for their savings, in exchange for immediate and easy access, with lower transaction costs for the client, which in many cases offset the other higher costs involved in informal channels.

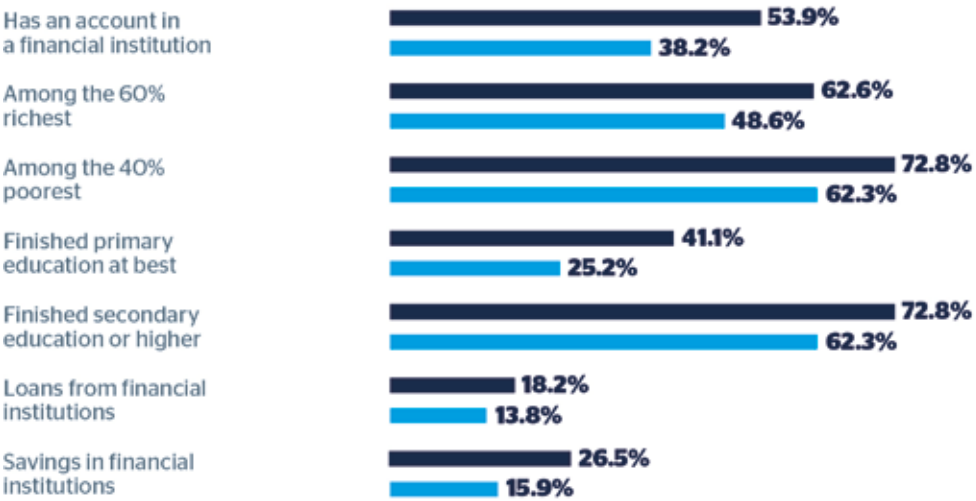


53% of adults applied for a loan in the last 12 months, but only 18% did so through a formal financial institution, whilst the remaining 35% asked family, friends and/or informal lenders.

This is a key issue which needs to be addressed and which, if addressed, could result in a higher use of the financial system for these groups, which carry out most of their activities as self-employed workers in small enterprises.

This is corroborated by the fact that only 14% of adults conduct more than three transactions a month, with most opting to use cash. In fact, 55% of those receiving wages are paid in cash, which would to a large degree account for the difficulties around *cash in-cash out* issues on transactions by institutions working in these segments.■

Financial Inclusion (% adults)



■ 2014 ■ 2011

Source: World Bank Global Findex.

Notes (1) Conducted at the end of November 2016. (2) Banco Central de la Dominican Republic (Dominican central bank). Preliminary Dominican economy results, January to September 2016. (3) All estimates at the close of 2016 are by BBVAMF Research. (4) All the data in the section is sourced from the Dominican central bank, Banco Central de la República Dominicana. (5) Ministry of the Economy, Planning & Development (MEPYD in the original Spanish acronym), National Statistics Office (ONE in the Spanish acronym). (6) Source: Ministry of the Economy, Planning & Development. (7) World Bank Global Findex.