BBVA Microfinance Foundation

Social Performance
Report 2016

Measuring what really matters

Fundación
BBVA MicroFinanzas

10° ANIVERSARIO

“Love not what you are,
but what you may become”.

Don Quixote
Miguel de Cervantes

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Ten years working towards sustainable and inclusive economic and social development for vulnerable people

This year the BBVA Microfinance Foundation is celebrating its 10th anniversary. In 2007, BBVA set up BBVAMF, an institution that has supported more than five million vulnerable people in Latin America, creating opportunities for development and better standards of living.

Our purpose

The financial sector plays a key role in development, both because of its support for economic growth, and because of its impact on disadvantaged segments of society, making their access to financial services possible.

Financial exclusion is an obstacle to development for the poorest and their communities. Financial policies that encourage appropriate incentives and help people with talent and entrepreneurial spirit to get access to financing are extraordinarily important. They provide stability, promoting growth, poverty reduction and a fairer distribution of resources and skills.

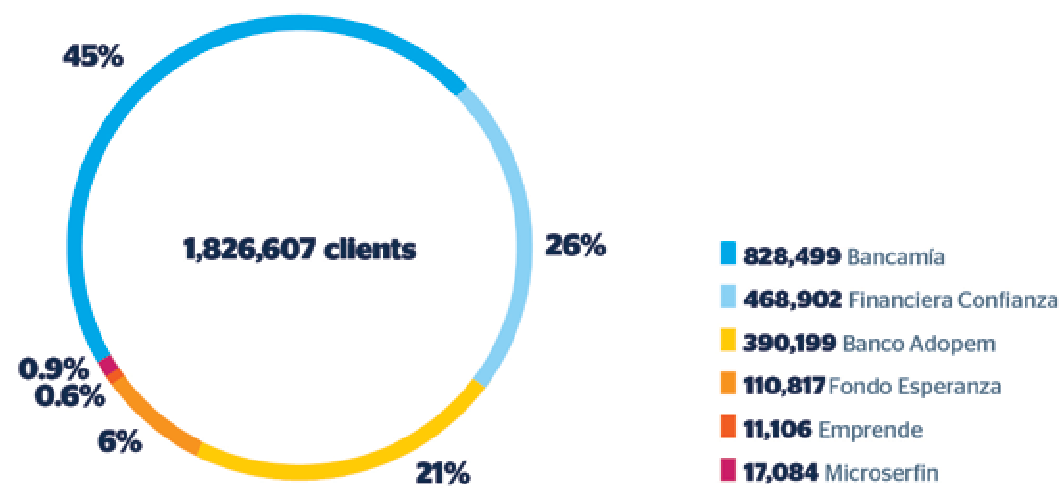
BBVA Microfinance Foundation (BBVAMF), a non-profit entity, came into being within the corporate social responsibility area of the Spanish bank Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), and has put all the knowhow of a bank with more than a century and a half of experience at the service of the most vulnerable.

BBVAMF is a legally incorporated entity with the purpose of promoting sustainable and inclusive economic and social development for disadvantaged people through Responsible Productive Finance. The aim is to accompany them over time with a methodology designed to raise their standard of living with products, financial services, advice and training. These people are at the center of everything that BBVAMF does; the Foundation, driven by the BBVA, remains true to its mission to reduce poverty and inequality, bringing fresh ways of thinking to the microfinance sector.

BBVAMF focuses on two strategic activities: creating and managing a group of sustainable microfinance entities that are a reference point in Latin America; as a linked activity, implementing projects that are the drivers for transformation in the sector and for eliminating the barriers to their expansion. Over this decade, BBVA Microfinance Foundation has signed off more than USD 8.2 billion in loans to vulnerable entrepreneurs (2007-2016), and has become a philanthropic institution with one of the greatest social impacts in Latin America, the first operator with proprietary methodology in the region, and one with 1.8 million clients.■

Significant scale

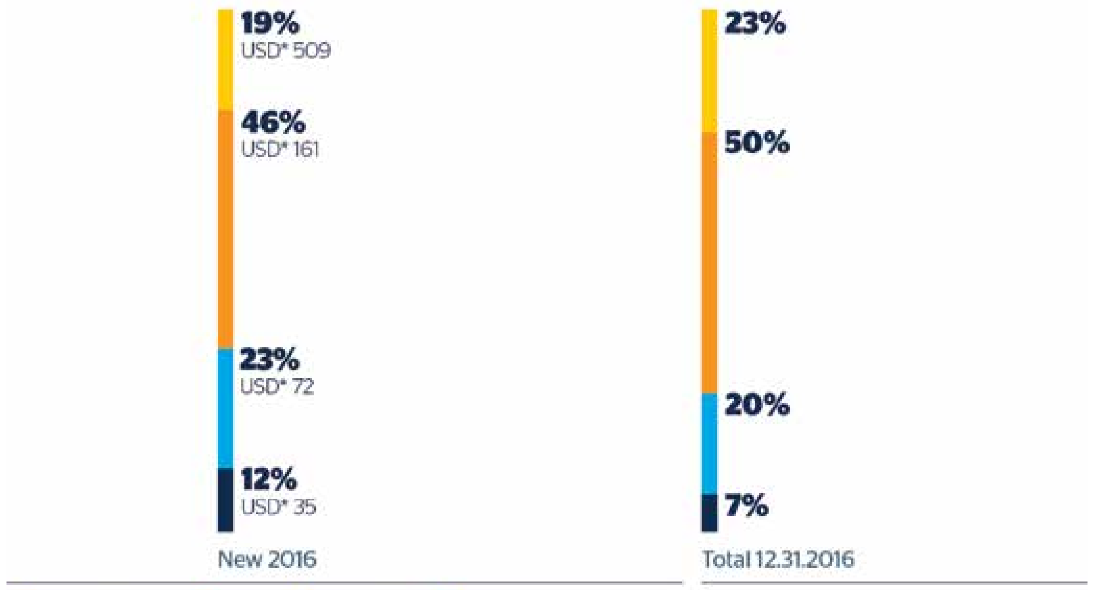
Total net clients as of December 31, 2016



Source: BBVAMFG institutions. BBVAMF calculations.

Currently serving 1.8 million clients with an estimated indirect impact on 7.3 million people.

At the service of low-income entrepreneurs

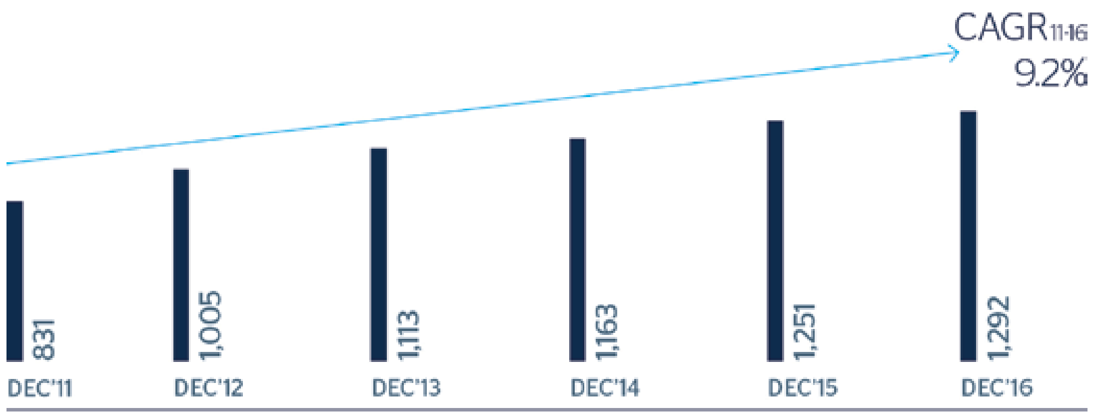


*Monthly net income per capita.
Source: BBVAMFG institutions. BBVAMF calculations.

As of 12.31.2016, 77% of credit clients were classified as *vulnerable*, that is, *per capita* net incomes from their enterprises were less than three times the poverty line in their respective country and environment (rural/urban).

Solid asset base

Aggregate total assets as of December 31 of each year (USD million)



Source: BBVAMFG institutions. BBVAMF calculations.

Solid asset base to support the growth of entities in the BBVAMF Group.

Extensive regional footprint

Dominican Republic
Banco Adopem

Panama
Microserfin

Colombia
Bancamía

Peru
Financiera Confianza

Chile
Fondo Esperanza
Emprende

507 branches in five countries across six microfinance entities and 8,038 employees.

Creating value for the future

2007 BBVAMF established, with a donation of EUR 200 million from BBVA (Spain).

2008 Acquisition of majority stake and merger between Caja Rural NorPerú, Caja Rural del Sur and Edpyme Crear Tacna. Caja Nuestra Gente (Peru) incorporated. Acquisition of majority stake and merger of WWB Colombia and WWB Medellin. Incorporation of Bancamía (Colombia).

2009 Acquisition of majority stake and creation of Emprende (Chile).

2010 Acquisition of majority stake in Financiera Confianza (Peru). Acquisition of majority stake and creation of Microserfin (Panama).

2011 Acquisition of majority stake in Fondo Esperanza (Chile).

2012 Acquisition of majority stake in Banco Adopem (Dominican Republic).

2013 Merger of institutions in Peru and creation of a merged Financiera Confianza.

Board of trustees

Management team

Management team

Javier M. Flores
Chief Executive Officer

Paloma del Val
Legal Advisory
and General Secretariat

João Costa
Service Delivery
Infrastructure

Miguel Ángel Ferrer
Human Resources

María Oña
Communication
& External Relations

Miguel Ángel Charria
Risks & Business
Development

Joaquín Ángel Cortés
Internal Audit

Giovanni Di Placido
Analysis & Research

Alejandro Lorca
Finance & Corporate
Expansion

Silvia Duro
Compliance

Rodrigo Peláez
Impact Assessment
& Strategic Development

Partners

Founding NGOs

Corporación Mundial de la Mujer Colombia [Women's World Corporation Colombia]
Non-profit institution set up in 1989 with the mission of improving the standards of living of those in a situation of vulnerability, particularly women, with programs and projects driving human and productive development.

Corporación Mundial de la Mujer Medellín [Women's World Corporation, Medellin] (Colombia)
NGO running since 1985 and focusing on the development and reinforcement of microentrepreneurs. It provides tools and services to train, consolidate and sustainably grow microenterprises and protect the families economically dependent on them.

ONG Adopem: Asociación Dominicana para el Desarrollo de la Mujer [Dominican Association for Women's Development] (Dominican Republic)
Created in 1982, this NGO has the mission of enhancing and building on entrepreneurial skills, together with the social and human development of its clients and their families. It provides training, assessment and research services in a number of areas, generating greater integration and participation in the development process as well as a positive impact on their business growth and living conditions.

ONG SEPAR: Servicios Educativos, Promoción y Apoyo Rural [Educational Services, Support and Rural Development] (Peru)
This non-profit civil association set up in 1987 promotes sustainable development in Peru, particularly in the country's central region, through the execution of development programs and projects.

Hogar de Cristo [Home of Christ] (Chile)
Charitable institution founded in 1944 to help the poorest of the poor and the socially excluded, opening up their opportunities for a better life.

Multilaterals

International Finance Corporation [World Bank Group]
Set up in 1956, IFC is made up of 184 member countries and is the largest global development institution focused exclusively on the private sector in developing countries. As a member of the World Bank Group, the goals of the IFC are to end poverty and boost shared prosperity. Its vision is that people should have the opportunity to escape poverty and improve their standard of living. It uses its capital, expertise, and influence to create opportunities where these are most needed.

Social investment funds

Oikocredit
Oikocredit – originally called Ecumenical Development Cooperative Society – was founded in 1975 to provide religious institutions with an alternative investment channel focusing on disadvantaged people. Today it is an international cooperative based in the Netherlands that finances organizations that improve the standard of living of low-income people and communities sustainably. With a great deal of experience in microfinance, Oikocredit is currently also investing in agriculture and fair trade, as well as in renewable energy.

INCOFIN
Headquartered in Belgium, Incofin Investment Management (Incofin IM) manages and advises funds that invest in microfinance institutions in developing countries. As a specialist in rural microfinancing, it attaches great importance to the social objective of the organizations which it supports, selecting only those institutions that have a positive impact on their clients' and employees' standards of living.

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

Measuring

With over 1.8 million clients, BBVAMF Group is committed to serving low-income entrepreneurs. Of the 900,000 plus people who have taken out a loan, 77% are *vulnerable*, and 60% are women. Their net incomes grow on average by 18% a year, their assets by 26% and the segment of clients classified as *poor* at the outset falls by 38% after two years. Furthermore, at the same time, some are creating new job positions and improving their housing conditions and education levels.

Total clients
1,826,607

Total credit clients
901,624

New credit clients
268,582

(1) According to the DANE poverty line (differentiating between 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

77%	45%	60%	32%	19%
Vulnerable(1)	Primary education at best(2)	Women	Rural	Under 30 years old

New credit clients in 2016

81%	37%	58%	30%	33%
Vulnerable(1)	Primary education at best(2)	Women	Rural	Under 30 years old

Measuring the progress of microentrepreneurs

The provision of financial products and services to vulnerable people with productive activities is an efficient tool in the fight against poverty. BBVA Microfinance Foundation's vision was put into practice with Responsible Productive Finance, a methodology based on case-by-case knowledge of microentrepreneurs to support them in generating net incomes that can be sustained over time.

Microfinance has demonstrated that it is an effective tool for accessing and managing financial resources for low-income people. It encourages the development of microentrepreneurs' productive activities by giving them financing options, and thus helps to smooth financial flows through better income management, together with access to saving and insurance. This is indispensable for low-income families and communities to make progress. Drawing on its experience, BBVA Microfinance Foundation (BBVAMF) believes that it is very important to establish sustainable, long-term relationships with clients to reduce poverty, since this enables them to generate higher incomes and consolidate their wealth.

BBVA Microfinance Foundation's vision was put into practice with Responsible Productive Finance, a methodology based on providing a complete range of financial products and services to microentrepreneurs, as well as training and advice to stimulate the development of their productive activities, mitigate risks and improve their families' standard of living sustainably. It means putting these economically vulnerable entrepreneurs at the center of microfinance activity, helping them to take decisions that optimize their resource management from an intertemporal perspective and that increase their likelihood of success in the long term.

BBVAMF supports and contributes to the development of these vulnerable entrepreneurs' skillset, so that they can make good progress, improving their current and future standard of living through their productive work and effort. All the merit of any success they may have in their endeavors, however small, is entirely the client's.

The ultimate goal is for these people's progress to be sustainable and as broad and wide-ranging as possible, having an impact on the various dimensions of their economic and social development. But the aim is also that the development of this activity should be inclusive (in terms of reach), that it should have a positive impact on as many vulnerable people as possible (scale) and that this be achieved on a sustainable basis.

Within this framework, BBVAMF has made it a priority to develop an advanced system for measuring, analyzing and tracking the economic and social attributes of the people it serves and in 2012 created the Social Impact Assessment unit, in order to measure to what degree it was fulfilling its mission, and to drive a framework for social performance management that would become a benchmark in the sector.

BBVAMF currently has a system of quantitative and qualitative metrics that are designed to systematically and regularly analyze the changes clients are undergoing in terms of their business development and social conditions throughout their relationship with the six institutions that make up the BBVA Microfinance Foundation Group ("BBVAMF Group" or "the Group").

> The detailed and repeated measurement of microentrepreneurs' progress is an effective way of ensuring compliance with BBVAMF's mission and of enabling effective action.

The concept of social performance management is still relatively new in the microfinance sector, although a number of initiatives exist that seek to find an overall vision and a shared framework to integrate it across regions and institutions. BBVAMF was a pioneer in this field and has defined a specialized, proprietary and practical model, based on measuring who its clients are and how they behave, what their businesses are like and how they progress over time in economic and social terms. These elements are covered in this chapter under the following three sections:

- **Committed to serving low-income clients** Introduction to the approach used in BBVAMF to segment clients by their economic vulnerability and verification that clients served by the institutions are low-income entrepreneurs.

- **Observing microentrepreneurs' progress** Close analysis of progress made by clients in their productive activities, giving the specific characteristics of each sector.

- **Staying with clients as they grow** Arguments supporting the importance of nurturing long-term relationships with clients to further their development and generate more impact from the point of view of fulfilling the mission, and description of the principal products available to them.

The outcomes suggest that there is a positive relation between access to microfinance products and services offered by BBVA Microfinance Group institutions, and the progress made by clients in the long term. BBVAMF does not attribute the cause of these changes to itself, given that they are the result of a series of multiple factors; however, it does consider that measuring them in a detailed and systematic way is the most effective means of ensuring compliance with the mission and converting it into an actionable purpose.

1. Committed to serving low-income clients

BBVAMF's culture is focused on serving vulnerable clients and on measuring and monitoring their progress over the long term. To this end, clients are segmented by their *economic vulnerability*, comparing the *per capita* net incomes from their productive activities (profit obtained from their businesses divided by the number of members in the family unit) with the official poverty and extreme poverty lines in their country at the time, and differentiating between urban and rural environments. In this way, four client segments have been defined: *extremely poor, poor, vulnerable* (when their *per capita* net income is less than three times their country's poverty line) and *others* (considered *non-vulnerable*). This is the main criterion used to classify clients throughout the report.

1.1 Keeping the focus on vulnerable clients using specific targets

Staying close to the vulnerability profile of clients served by the Group's entities is critical in order to ensure alignment with the mission and a key element for managing the social performance of each institution.

Economic vulnerability

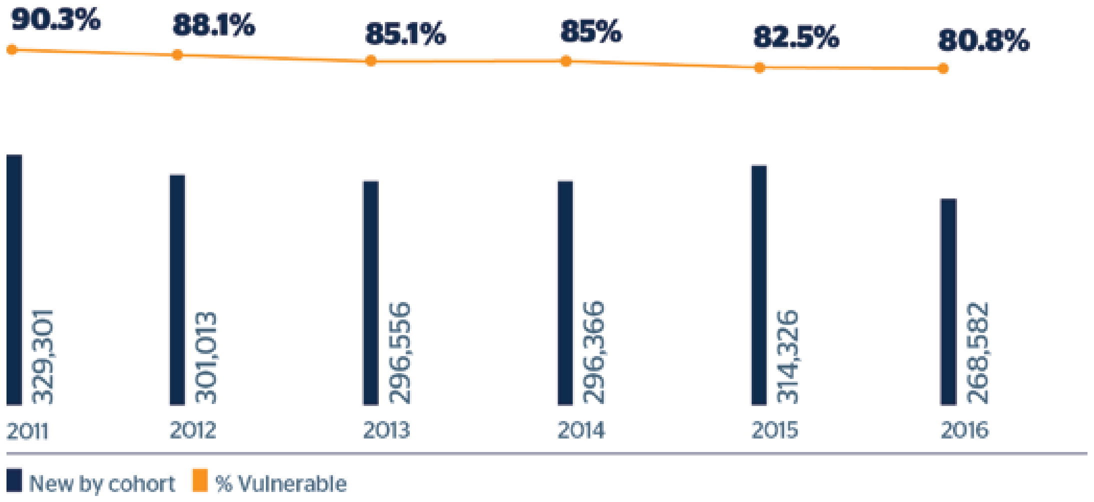
The trend of serving new vulnerable clients continued in 2016. With a social performance measurement system that is solid in terms of quality and volume of information, and with stable indicators, it has been possible to set targets for focusing attention on *vulnerable* clients as a guarantee of alignment with the mission.

To the end of December 2016, 77% of current clients were classified as *vulnerable*[1], and 80.8% of clients who joined the Group during 2016 were so at the outset[2]. To give an idea of the order of magnitude, among new *vulnerable* clients, each member of the family produced an average of USD 3.9 a day from the net income generated from their microenterprises. Of new clients, 35% are classified as *poor* or *extremely poor* and live on an average of USD 1.9 a day.

Reduction of poverty segments

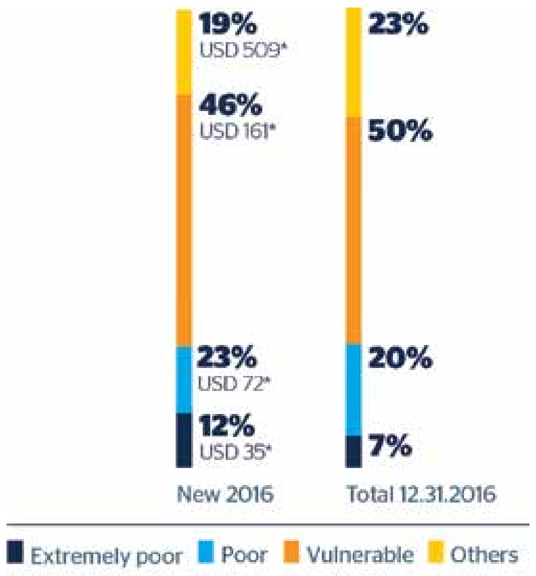
This system of classification and regular measurement makes it possible to record that the reduction in clients' *economic vulnerability* is directly related to the time they remain as clients in the Group. On average, clients in a given cohort who were initially classified as *poor* or *extremely poor* gradually generate bigger incomes over time, so their *per capita* net incomes break through the poverty lines and they are reclassified as *non-poor.* For example, among clients in the 2014 cohort who were still clients at the end of 2016, 45% were classified as *poor* or *extremely poor* at the outset of their banking relationship and as of the end of 2016 this same segment accounted for only 27%, a reduction of 40%.

New credit clients (a)



Source: BBVAMFG institutions. BBVAMF calculations.

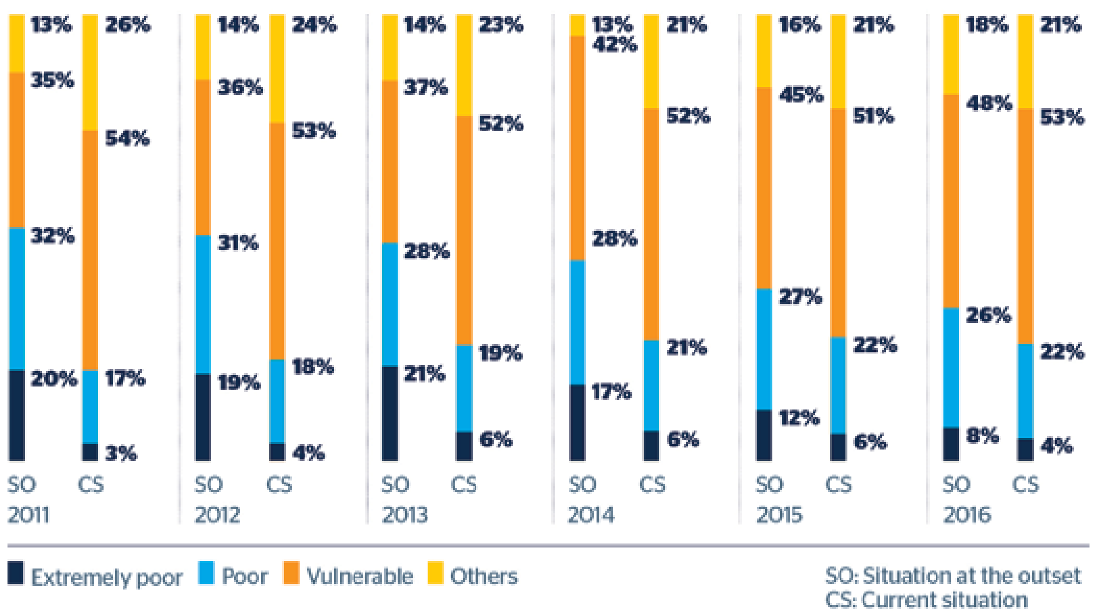
Economic vulnerability (b)



* Monthly net income per capita.
Source: Each country's official body, BBVAMFG institutions. BBVAMF calculations.

(a) New clients (without previous loans) signed up over the year.
(b) According to each country's official poverty lines (differentiating between rural and urban environments). Clients whose *per capita* net income (estimated as the business net income divided by the number of members in the household) is above the poverty line but below the threshold obtained by multiplying the poverty line by three are considered to be in the *vulnerable* segment.

Vulnerability segments, change (c)



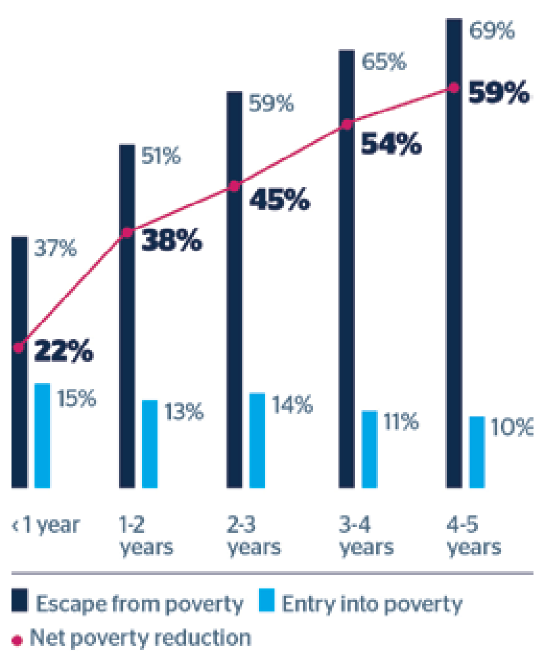
Source: BBVAMFG institutions. BBVAMF calculations.

Although there is also a set of clients whose net incomes fall and thus who may fall into, or back into, *poor* segments, this is a small proportion and a shrinking one. As a net effect the segment of clients classified as *poor* or *extremely poor* diminishes over time; on average this reduction is 22% after a year and 38% after two years with Group institutions *(see graph d)*.

In absolute terms, in 2016 over 224,000 clients improved their *per capita* net incomes relative to their corresponding poverty lines (country and rural/urban environment), once these were updated by the official bodies or corrected for inflation[3] and over 56,000 have escaped poverty (i.e. are not classified as *poor* or *extremely poor*).

Overall, the data show a positive correlation between clients continuing in the BBVAMF Group, and the increase in their net incomes over time. This reinforces the conviction that the financial channel plays an important role in improving clients' standards of living.

Reduction in poverty segment (d)



Source: BBVAMFG institutions. BBVAMF calculations.

(c) Shows the 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.
(d) 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.

After two years, the client segment classified as *poor* at the outset shrinks by 38%.

1.2 Looking beyond incomes: other vulnerable segments

As well as measuring and monitoring clients' *economic vulnerability*, other segments are tracked that, for their specifics on gender, environment in which people live, educational level and age, are considered of interest from the perspective of social performance measurement *(see figure e)*.

Profiles of non-economic vulnerability (e)

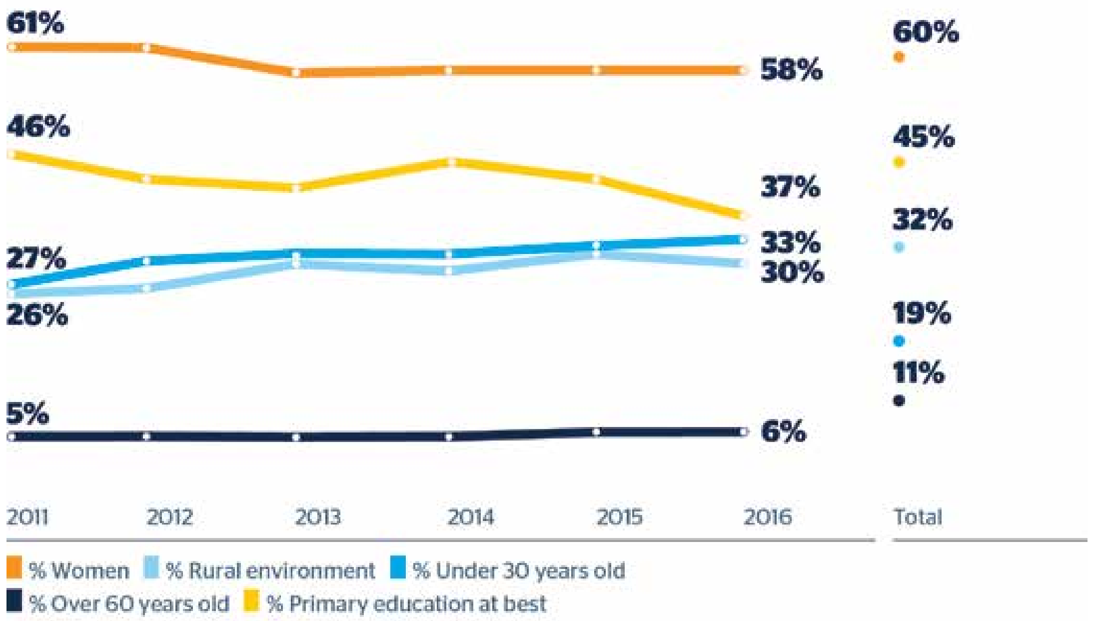
	Segment as % of total current clients	Some aspects of vulnerability
Women	60%	Disadvantaged from the perspective of: - Economy: wage inequality, more time spent on unpaid jobs. - Law: differences in gender legislation, in labor legislation and property ownership. - Society: gender violence, lower political representation.
Rural	32%	Low basic services availability, limited infrastructure, difficult access.
Under 30 years old	19%	Growing youth unemployment rate, early motherhood.
Over 60 years old	11%	Barriers to accessing labor market, limitations in social care (pensions), high healthcare expenses, family responsibilities.
Primary education at best	45%	Limitations in managing a business, difficulties in finding labor opportunities.

(e) Clients current as of 12.31.2016.

In recent years, the proportion that each of these segments represents in terms of client enrollment has remained stable, except in the segment of clients with little formal education (primary at best) which has fallen a little since 2014 *(see graph f)*.

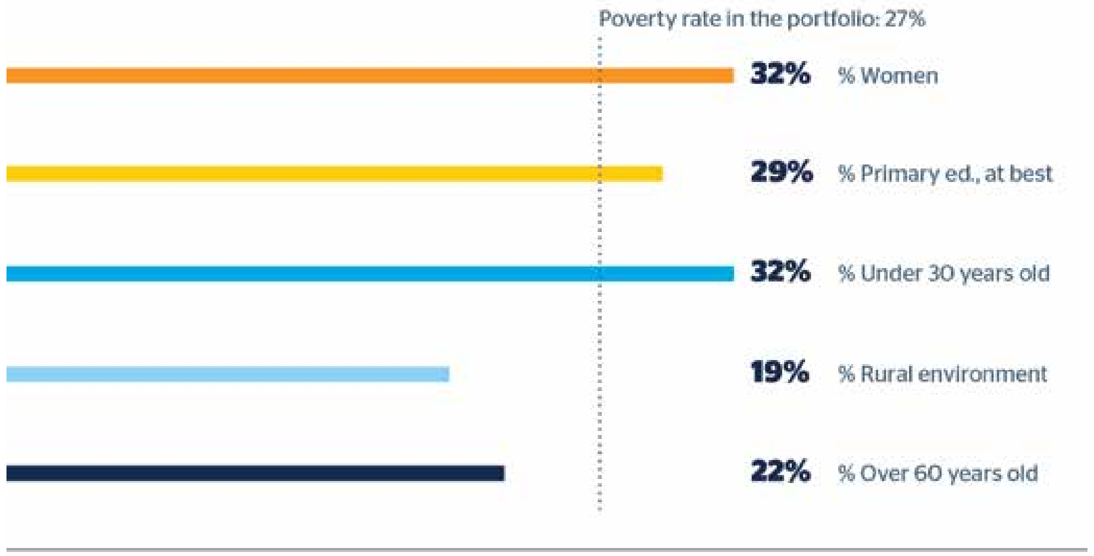
Turning to gender, 60% of all credit clients at the end of 2016 were women and 32% of these were classified as *poor*, a proportion higher than 27%, which is the average for the entire client portfolio, as is the case with the under-thirties segment *(see graph g)*. The *Women's empowerment* chapter, later on in this report, presents a vision of the situation of women in Latin America, conducting an in-depth analysis of the profiles and progress of female clients of BBVAMF Group institutions.

Profile of new & existing clients (f)



Source: BBVAMFG institutions. BBVAMF calculations.

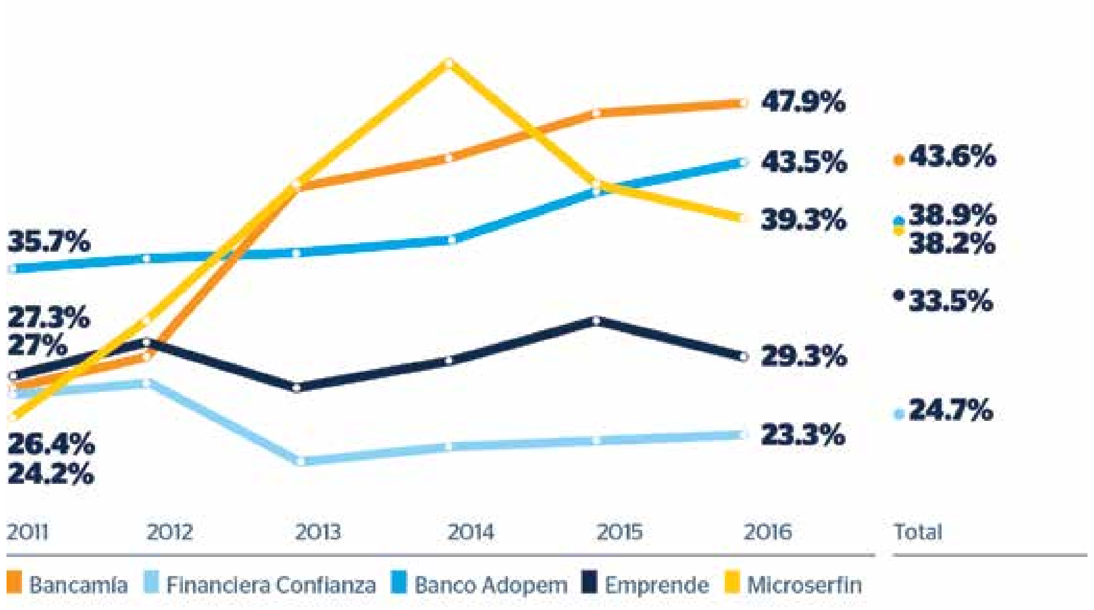
Poverty by segment (g)



Source: BBVAMFG institutions. BBVAMF calculations.

(f) New client (no previous credits) acquisitions over the year. Total represents the entire portfolio current as of 12.31.2016.
(g) Clients current as of 12.31.2016.

New and current credit clients in the rural environment (h)

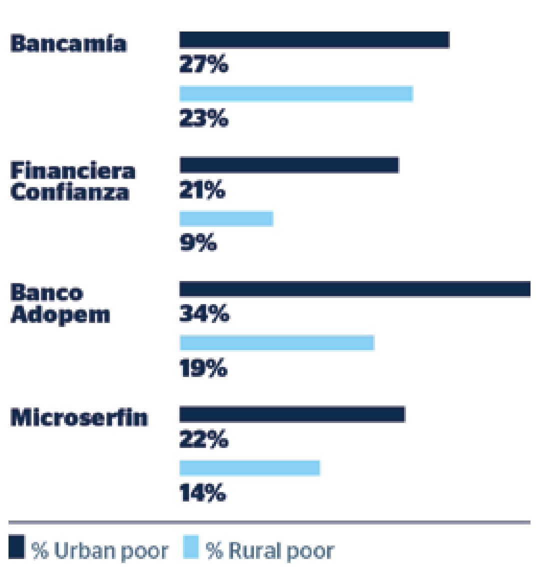


Source: BBVAMFG institutions. BBVAMF calculations.

On the question of environment, the poverty rate is still considerably higher in rural areas in relative terms. According to the latest CEPAL figures (2015), in Latin America and the Caribbean 23.8% of the urban population was living in households in a situation of poverty, and this proportion rose to 46.2% in the rural environment[4]. However, when the relative size of the client segment classified as *poor* in the Group was analyzed, it was seen to be larger in urban than in rural areas, *(see graph i)*, which is characteristic of the microfinance sector.

In terms of clients' educational levels, the environment in which they live is the key factor. Rural clients have significantly lower levels of education than those residing in towns: 64% of *extremely poor* and *poor* clients in the rural environment have primary education at best, whereas in urban surroundings this ratio is 42%.

Poverty by environment (i)



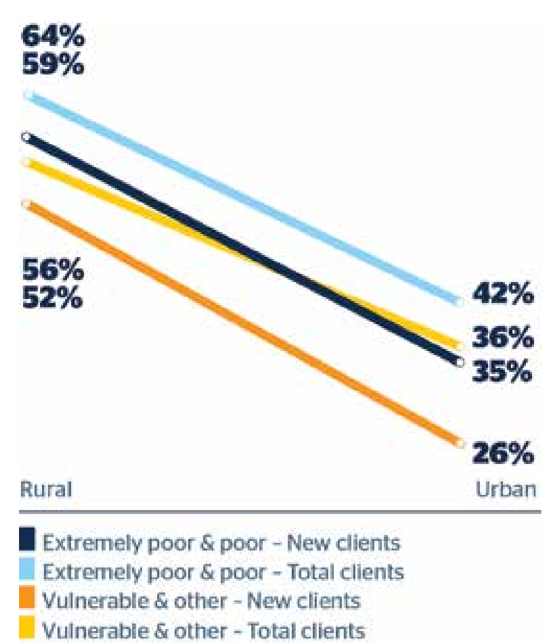
Source: BBVAMFG institutions. BBVAMF calculations.

(h) New client (no previous credits) acquisitions over the year. Total represents the entire portfolio current as of 12.31.2016. Emprende does not have an individual indicator for client environments, so it is not possible to establish the poverty of clients in the rural environment. Fondo Esperanza has no rural clients.
(i) Clients current as of 12.31.2016.

These proportions are lower for new *extremely poor* and *poor* clients served in 2016, who have slightly higher education levels (59% and 36% in rural and urban environments, respectively). Meanwhile, in the case of new *non-poor* clients the difference is greater: the percentage of clients with primary education at best is double in the rural environment (52% *vs.* 26%).

The *Special projects* sections in the country reports later on in the book describe some of the local programs specifically designed to serve some of these segments, such as Financiera Confianza's *Palabra de Mujer [Woman's Word]* product, Bancamía and Banco Adopem's agent banking, that help to reach the rural or *poor* populations more effectively.

Clients with primary education at best, by environment (j)



Source: BBVAMFG institutions except for Fondo Esperanza and Emprende. BBVAMF calculations.

(j) New clients represents clients joining during 2016 (no previous credits). Total represents the number of clients current as of 12.31.2016.

1.3 Making progress by integrating management into daily activities

Developing efficient and timely management of social performance is an effective route for guaranteeing mission alignment. Social impact and sustainability must be twin priorities and should form part of Group institutions' strategies. To do this, a shared language has to be created, based on objective data, which makes continuous tracking possible and which supports decision-making.

BBVAMF has gone a long way in this direction, succeeding in defining measurable targets on social performance indicators that are aligned with the mission, in coordination with the social impact assessment teams in the Group's institutions. In turn, the quarterly review by each institution's boards of directors and management committees of social performance reports has had the effect of creating a fluid, regular communication channel that strengthens the social performance perspective and also serves as an active management tool.

Integrating performance indicators into management has highlighted and strengthened the commitment to serve vulnerable clients and remain aligned with the mission.

2. Signaling microentrepreneurs' development

Microentrepreneurs' economic and social development is linked to the intrinsic properties of the value chain in which they operate, subject to geography, sector and levels of *economic vulnerability*. The knowledge, skillset and investment required for a mobile store (*retail trade*) are different to those needed to breed cattle (*agriculture*). The following analysis explores in depth some of each sector's specific characteristics and how these relate to client development.

2.1 Digging deeper into sector specificities

In order to make it easier to analyze different *vulnerability* segments, throughout this section, clients have been grouped together as *poor* (clients classified as *extremely poor* and *poor)* and *non-poor* (clients classified as *vulnerable* and *others*).

Client profiles and margins in each sector

The distribution of microentrepreneurs by activity sector has not changed in the Group's institutions in the last few years; to the end of 2016, the breakdown was as follows:

- 55% of clients work in *trade* and manage businesses that offer tangible products such as grocery stores, clothes shops, retail sale of food and beverages, convenience stores, etc., for which high educational levels or technical skills are not necessarily required. Furthermore, *retail trade* (49% of total clients) is the sector that contains the highest volume of clients classified as *poor* (31% *vs.* 27% of all clients).

- Most clients working in *agriculture* are men (66%), and farmers are the highest percentage of clients with primary education at best (62% *vs.* 45% of all clients). In rural areas, *agriculture* (*coffee plantations, cereal crops and cattle-breeding*) is the second most common economic activity among clients, and 86% of microentrepreneurs in *agriculture* live in rural areas.

- In the *service* sector, 67% of microentrepreneurs operate in urban areas and make up the lowest percentage of clients with primary education at best (34%), which suggests that training and skills development play a more important role here than in the other sectors. Indeed, the product offered is the direct result of the microentrepreneur's knowledge. For example, in a hairdresser's, the differential factor for good performance is to be a good hairdresser, for which skills development is the critical factor.

Economic activity by environment (k)

Source: BBVAMFG institutions. BBVAMF calculations.

(k) Clients current as of 12.31.2016.

Clients classified as poor, by economic activity and profile (l)

	% Poor	% Women	% Primary ed., at best
Total	27%	60%	45%
Services	21%	55%	34%
Wholesale trade	22%	52%	39%
Retail trade	31%	72%	44%
Production/ Transformation	27%	58%	42%
Agriculture	22%	34%	62%

Source: BBVAMFG institutions. BBVAMF calculations.

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

% Clients by sector		Breakdown of sales: Costs	Net income	Installment	Avg. monthly sales (USD)	Avg. assets (USD)
18%	Services	48%	11%	41%	1,377	9,319
6%	Wholesale trade	69%	8%	23%	2,505	10,594
49%	Retail trade	64%	9%	27%	1,744	6,301
12%	Production/ Transformation	52%	12%	36%	1,452	6,598
16%	Agriculture	57%	10%	33%	1,537	10,676

Costs · Net income · Installment

Source: BBVAMFG institutions. BBVAMF calculations.

(l & m) Clients current as of 12.31.2016.

On average clients in the *services* sector obtain higher margins, lower monthly sales and relatively high assets. On the other hand, those working in *trade* have lower margins, and in particular those involved in *retail trade* have the lowest asset levels.

A comparison of margins by *vulnerability* segments between clients classified as *poor vs*. the *non-poor*(5), does not reveal significant differences in *trade*, although this is not the case in *production/transformation*, *services* and *agriculture*; especially in these two final sectors, where the *non-poor* get higher margins from their businesses, given that with economies of scale their average fixed costs are lower.

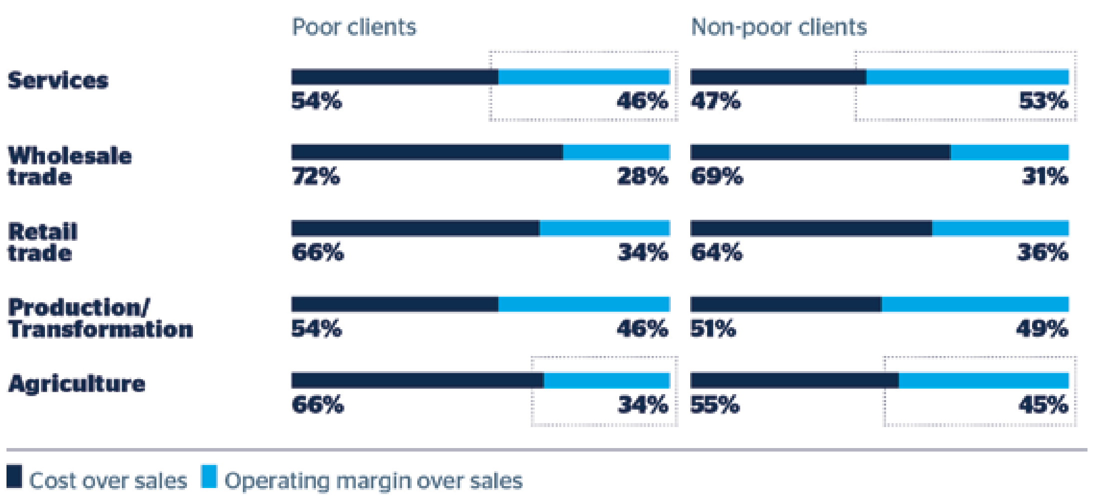
The greater weight of clients who work in *trade* within the portfolio as a whole, despite lower margins, is associated with their risk aversion. They prefer to develop their activities in sectors which offer them flexibility, so that they can change and operate with low fixed costs.

Sustained growth of microentrepreneurs

Microentrepreneurs' businesses report sustained growth over time in terms of sales, net incomes and assets in the case of all the cohorts analyzed. They post a compound annual growth rate ($CAGR_{T-16}$) of 26% in assets and 18% in sales and net incomes. On average businesses have monthly sales of USD 1,702, net incomes of USD 564 and assets of USD 7,622(6). There is a trend to accumulate/reinvest assets, since these grow at a faster rate than sales and net incomes. These results show the generation of wealth and highlight the positive relation between the period during which they have access to financial services and their progress.

The growth of clients' businesses depends, on the one hand, on the sector in which they operate and, on the other, on the size or degree of their *vulnerability* at the outset. In terms of the size of level of *vulnerability*, both in assets, sales and net incomes, clients classified as *poor* show faster growth rates than the *non-poor*, although more volatile ones.

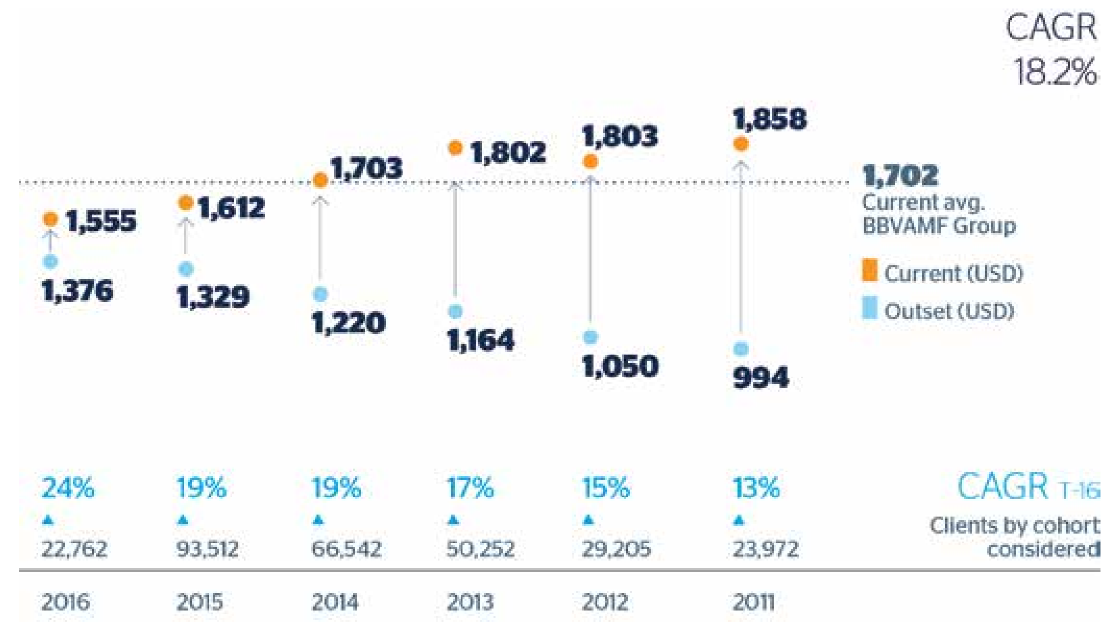
Margins by sector for poor and non-poor clients (n)



Source: BBVAMFG institutions. BBVAMF calculations.

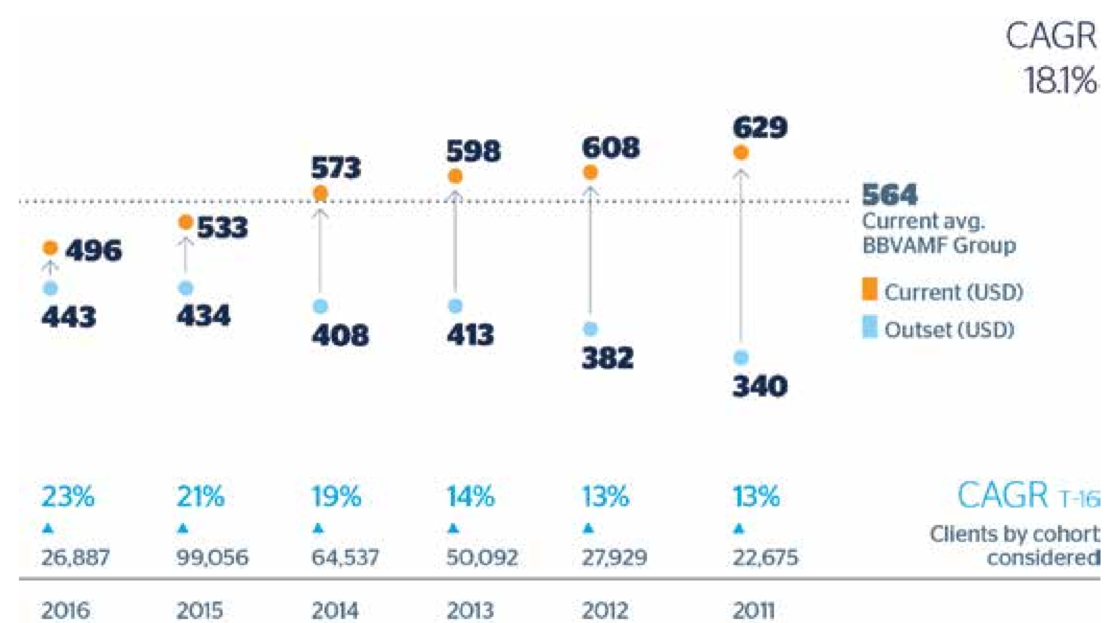
(n) Clients current as of 12.31.2016. In this case *poor* clients are those classified as *extremely poor* and *poor*; and *non-poor* are clients classified as *vulnerable* and *others*. This definition will be used throughout this section.

Average monthly business sales (by cohort) USD (o)



Source: BBVAMFG institutions. BBVAMF calculations.

Average monthly business net incomes (by cohort) USD (p)



Source: BBVAMFG institutions. BBVAMF calculations.

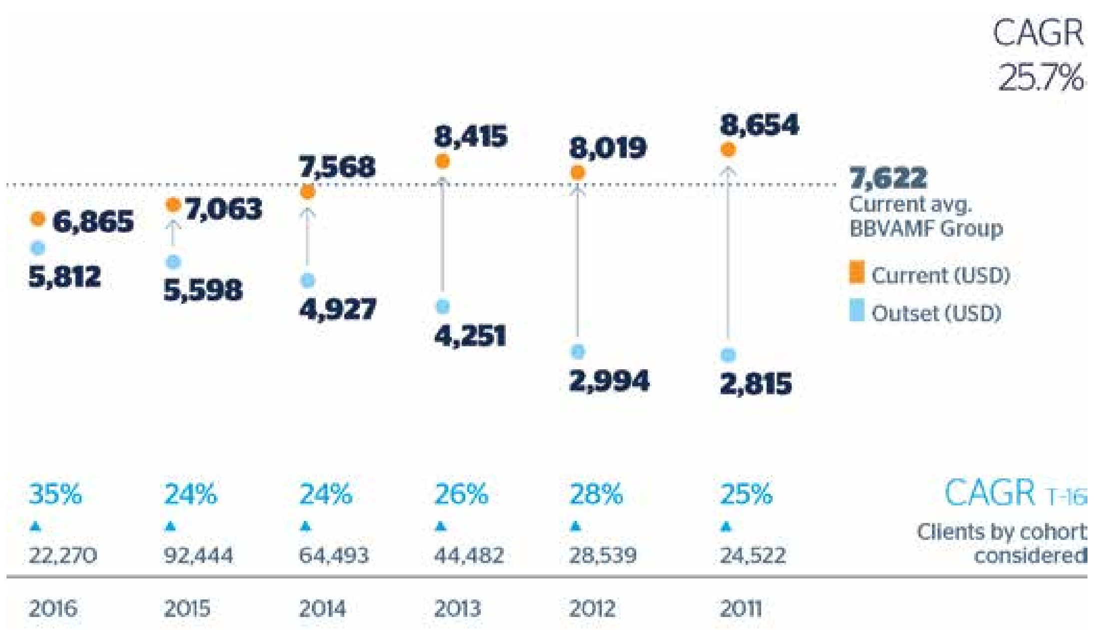
(o & p) Data on clients who were current as of 12.31.16, and who have made any disbursements in the previous 12 months (which restricts the sample to approximately 290,000 clients in these diagrams). Situation at the outset (data in their cohort year) and current situation (latest update) to 12.31.2016. CAGR: Compound Annual Growth Rate.

For example, in *services*, sales of clients classified as *poor* grow annually by 34% on average, whereas the *non-poor* grow by 15%; in the case of net incomes, by 40% compared to 9%, respectively *(see graphs r and s)*.

Looking at assets, these differences in the growth rates between the *poor* and *non-poor* can also be found here, although the distances are shorter. *Non-poor* clients post higher growth rates in assets than in their sales and net incomes, and closer to those reported by *poor* clients for their assets (comparatively), even when starting at much higher asset levels. In terms of asset value, in *trade* and *production/transformation* the asset value for the *poor* is lower than the average, and growth rates are higher. Note that a *poor* client in *agriculture* has an average asset value that is close to the average value for a client classified as *non-poor* in the *trade* sector. This sector (*agriculture*) requires a comparatively high investment *(see graphs t and u)*.

The growth of clients' businesses depends, on the one hand, on the sector in which they operate and, on the other, on the size or degree of their *vulnerability* at the outset.

Average business assets (by cohort) USD (q)



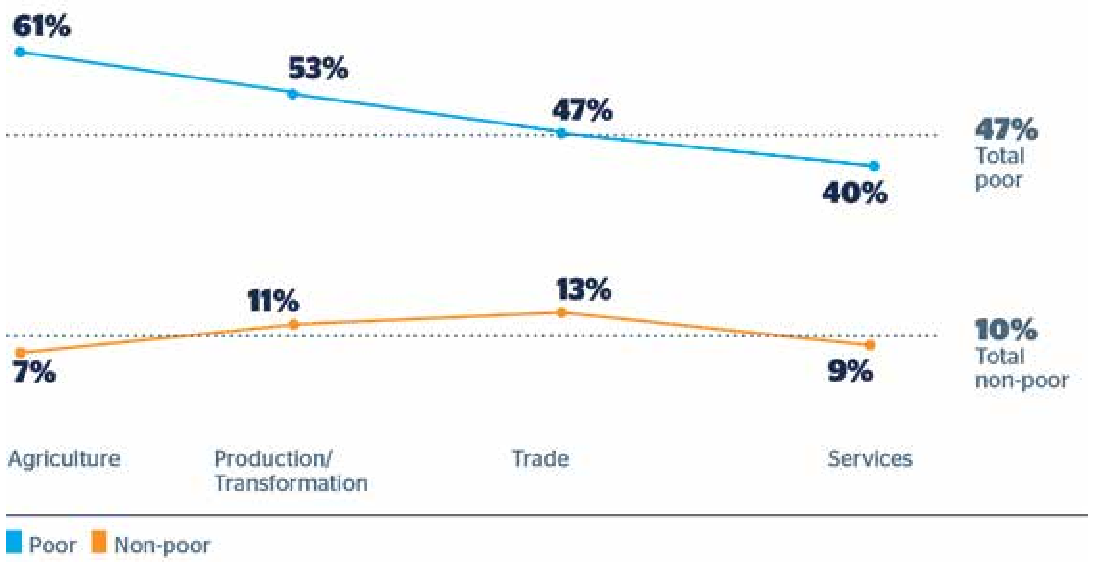
Source: BBVAMFG institutions. BBVAMF calculations.

(q) Data on clients who were current as of 12.31.16, and who have made any disbursements in the previous 12 months. Situation at the outset (data in their cohort year) and current situation (latest update) to 12.31.2016. CAGR: Compound Annual Growth Rate.

Average annual growth rates of business monthly sales (2011-2016 cohorts) (r)

Source: BBVAMFG institutions. BBVAMF calculations.

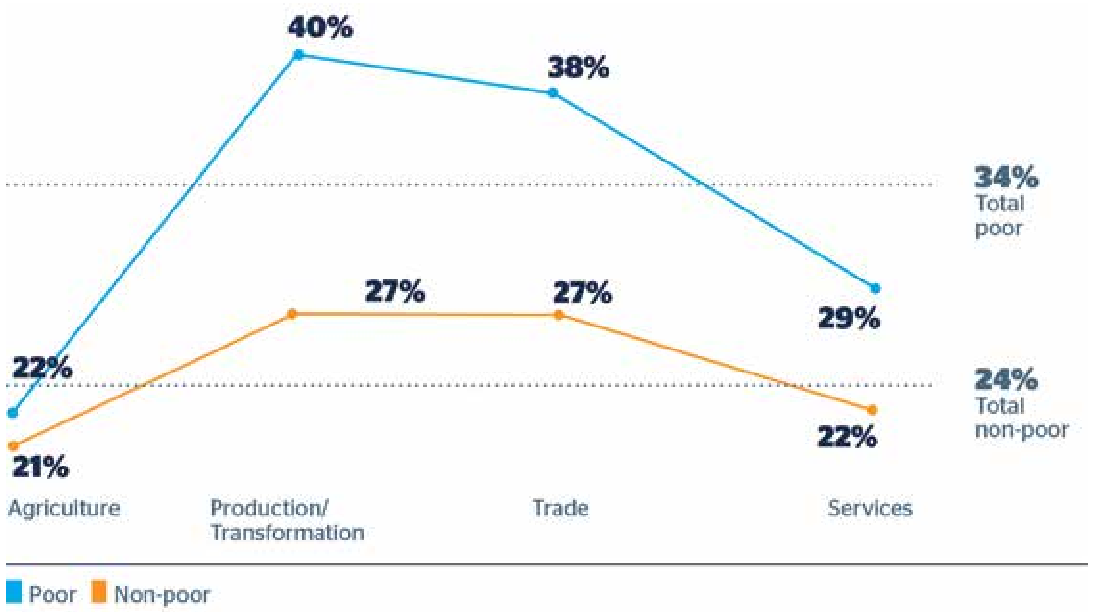
Average annual growth rates of business monthly net incomes (2011-2016 cohorts) (s)



Source: BBVAMFG institutions. BBVAMF calculations.

(r & s) Growth rates are annual. Compound annual growth rates (CAGR) from the 2011-2016 cohorts were used and weighted by the number of clients in every cohort, for each sector.

Average asset growth rates by sector (2011-2016 cohorts) (t)



Source: BBVAMFG institutions. BBVAMF calculations.

Current average assets by sector (USD, 2011-2016 cohorts) (u)

Source: BBVAMFG institutions. BBVAMF calculations.

(t) Growth rates are annual. Compound annual growth rates (CAGR) from the 2011-2016 cohorts were used and weighted by the number of clients in every cohort, for each sector.
(u) Shows the current average value, i.e. the latest as of 12.31.2016 (bearing in mind that it has been updated in the previous 12 months) for each sector, for the 2011-2016 cohorts, weighted by the number of clients in each cohort.

Investment levels, margins and growth rates, by sector (v)

Margins	Margins are higher in *services* and lower for *trade*. Margins improve in the less *vulnerable* segments, particularly in *agriculture* and *services*, suggesting an improvement in management efficiency in these businesses.
Investment in assets	High level of average assets in *services* and especially in *agriculture*, reflection of the need for minimums of scale in these activities.
Growth rates	*Poor* clients show high growth rates, higher than those of *non-poor* clients in sales, net incomes and assets, although in assets the disparity is smaller. Clients in the *agriculture* and *services* sectors have comparatively low growth rates, in particular for assets. There is greater volatility (by cohort) in the growth rates of *poor* clients compared to *non-poor* clients, whatever the sector, although particularly in *agriculture*.

The performance of the different sectors by cohorts is broken down in table (v).

These factors, intrinsic to the performance of each sector, for different *vulnerability* levels, account for the concentration of BBVAMF Group clients in the *trade* and *services* sectors.

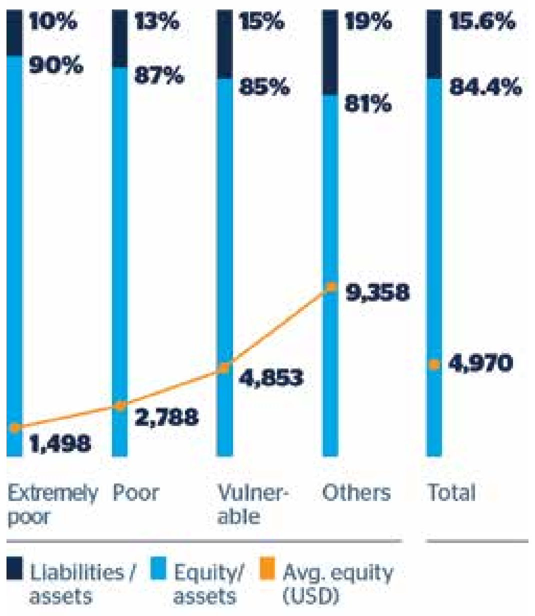
Financial structure of client businesses
BBVAMF Group clients' assets continue to be for the most part their own capital: on average 84% of their assets is funded by equity. Liabilities account for no more than 10% of *extremely poor* clients' assets and 19% of *non-vulnerable* clients' assets (*others*). By sectors, *agriculture* and *trade* report the smallest indebtedness ratio. In *agriculture* this is logical because of the business profile: lower margins and seasonal variations that explain volatile, less certain incomes. *Trade* is a segment requiring relatively small investments and less business knowhow. Essentially, for the latter sector, it depends on the capacity of daily transactions and these vary, so the conditions for taking out a loan are more unstable; this is reflected in the fact that this segment has the highest number, in relative terms, of *poor* clients.

Clients in the *services* sector need to access bigger loans to make the investments they want, and a greater diversity of financial products.

Understanding the needs of each sector better
In order to offer microfinance services that are better adapted to clients' needs, it is a useful exercise to identify some general trends so as to understand more fully clients' characteristics and behavior in their activity sectors, in line with the analyses presented above.

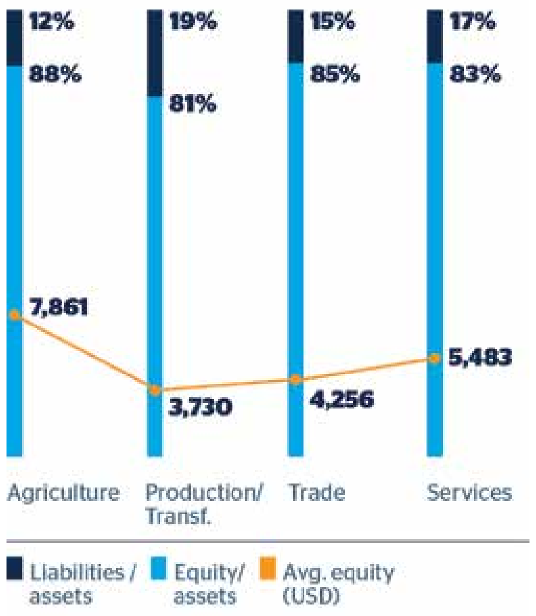
Differential characteristics have been identified for the three sectors in which most of our clients operate, as shown in table (y).

Financial structure and equity, by vulnerability (w)



Source: BBVAMFG institutions. BBVAMF calculations.

Financial structure and equity, by sector (x)



Source: BBVAMFG institutions. BBVAMF calculations.

(w & x) Assets and liabilities calculated at the time of assessing the credit risk (*i.e.* the credit is not included). Clients current as of 12.31.16.

Sector specificities (y)

Dimensions	Agriculture	Retail trade	Services
Dependence on value chain	Clients positioned in different parts of the value chain, generally in production (not in manufacturing / product processing).	At the end of the value chain, with little control over the same.	No value chain. Highly dependent on micro-entrepreneur's skills and the business concept defined.
Investment	Average asset: USD 10,676; comparatively high investment.	Average asset: USD 6,301; comparatively low investment.	Average asset: USD 9,319; comparatively high investment.
Scalability	Technology and processes required to be scalable.	Volume sales required to be scalable.	Volume sales required to be scalable.
Skills needed	Requires technical know-how.	No managerial knowledge necessarily required.	Requires a tested skill.

Agriculture requires a connection, preferably one that is stable and regular, with the various players involved in the value chain (intermediaries, other producers, financiers, etc.), and a high degree of technical assistance. Although clients appear to be less vulnerable because of the aggregate sales and assets shown (which are higher) they are still vulnerable because of other key reasons: (a) their incomes from production are very volatile; (b) the investments required can be significant and have to be made at specific moments during the year; (c) their risks are multi-factor and may be difficult to estimate and mitigate, and (d) since they are mostly in remote locations and it is more difficult to reach them, it is difficult to access the most vulnerable farmers. The Group's microfinance institutions are aware of the needs of this sector and for this reason are using a number of different tactics to adapt their service offering. For example, specialized assessment systems continue to be developed; loans and payment methods adapted to real production/delivery times are being offered; and insurance products to protect clients from adverse events are being designed.

The *trade* sector concentrates most clients, because it has lower barriers to entry and it is feasible to operate with low fixed costs.

Microentrepreneurs in other, more developed, sectors, such as *services* (with a smaller proportion of clients classified as *poor*, stable growth, high margins and high average asset levels) can be more sophisticated in financial terms. Due to the need for a greater investment in assets, they need to access not only higher levels of credit to make the investments they want, but also a more extensive liability product portfolio in order to manage their cash flows and save successfully. There is a gap in the access to financing that can be filled.

Turning to *trade,* most clients work here; it is an easier type of business to start up for vulnerable clients (apart from subsistence farming identified in *agriculture*), with a high percentage of clients classified as *poor* and *extremely poor* (31%) in *retail trade*. Particularly in the latter *trade* sector, clients enjoy high rates of growth, but low margins and asset levels. There may be good reasons why many microentrepreneurs do not take the decision to grow their businesses, preferring instead to diversify their income-generating activities between several microenterprises, rather than creating a single business that would be more vulnerable to factors out of the microentrepreneur's control; or to invest their surpluses in feeding and educating their children, giving priority to their families' human capital rather than the scalability of their businesses. Perhaps for these reasons, the performance of financial products and services in this sector depends more on the type of environment in which they are operating than the needs of the businesses *per se*.

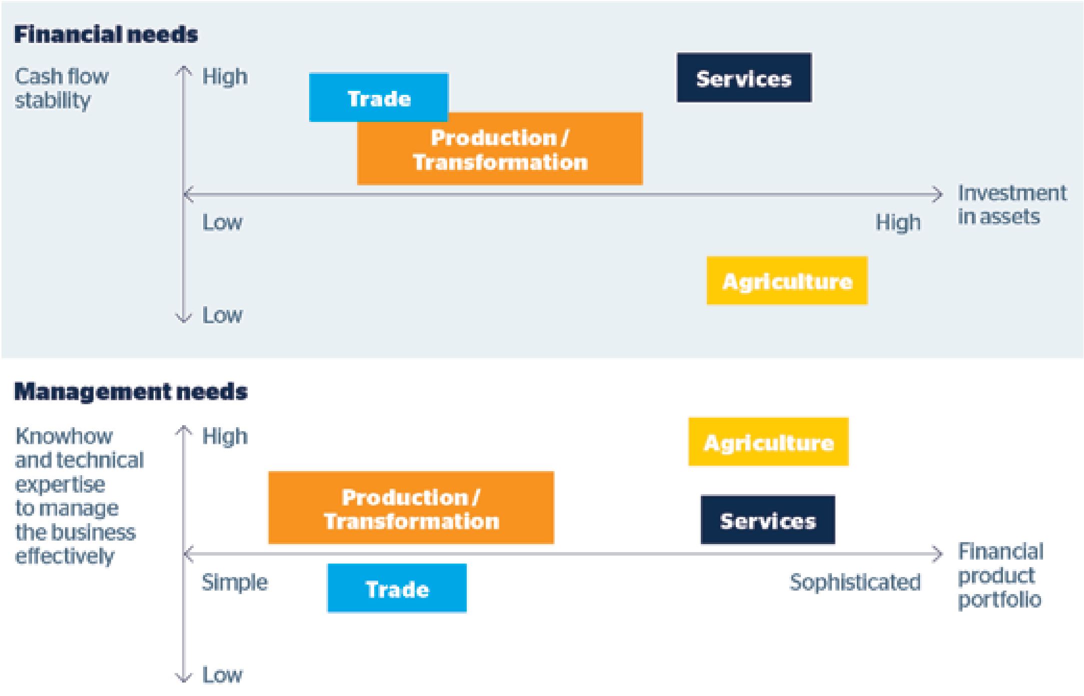
One of the features with the greatest influence on the behavior of entrepreneurs who are targeted by the BBVAMF Group is the instability of their income and their limited room for maneuver in the event of external shocks.

This leads to their preference for the short term over long term, and explains why they have a lower threshold of tolerance for the interim period before some operations come to maturity, leading them to operate in short-cycle sectors such as *trade*. Intuitively they manage higher margins –risk-adjusted – which means that they are over-represented in this sector.

There is also a clear correlation between the stage in the economic cycle and the degree of portfolio diversification. In periods of lower growth or recession, the demand for loans destined for *trade* increases relative to those for other sectors, compared to the concentration of such loans in other stages of the economic cycle.

The analysis carried out in BBVAMF has identified differential characteristics in each sector, in terms of financial needs and management requirements, illustrated in graph (z), below.

Differing financial and management needs, by sector (z)



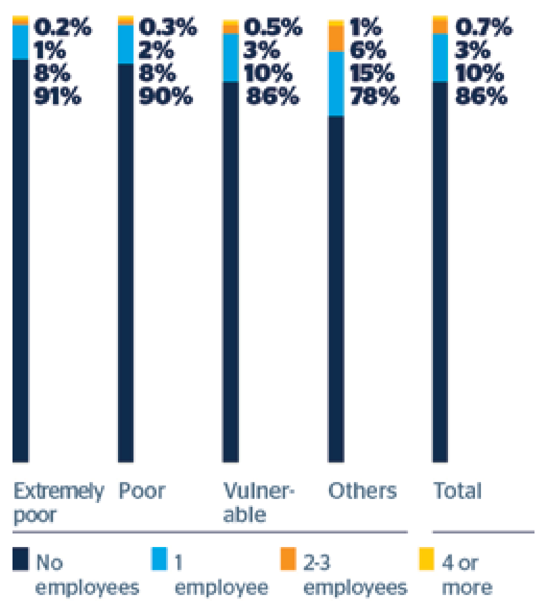
2.2 Impact on jobs

Self-employment is the most frequent form of employment among BBVAMF Group clients; 86% do not have any other employees in their microenterprise. Nevertheless, note how the capacity to generate employment rises as *vulnerability* levels fall: 10% of clients classified as *poor* have at least one employee, and in the case of *non-vulnerable* clients, this percentage rises to 22%. 901,624 credit clients generate jobs for another 182,790 people[(7)], and an analysis of the different cohorts reveals that on average 7% of clients create at least one job position after two years with their institution.

2.3 Going beyond financial services

An analysis of the impact achieved beyond access to financial services, one that looks at the progress of their microenterprises, reveals that the longer the client's relationship with the institutions in the BBVAMF Group, the greater their interest in extending this relationship and in improving their standard of living in general. After two years, on average, 8.5% of clients have improved their housing conditions and nearly 5% have improved their educational attainments after four years. Improvements in housing conditions and education occur at a moderate rate, but the data show long-term stability.

Source of employment (aa)



Source: Information available for all institutions apart from Bancamía. BBVAMF calculations.

Job creation (by cohort) (bb)

Source: Information available for all institutions apart from Bancamía. BBVAMF calculations.

(aa) Number of clients' business employees current as of 12.31.2016.
(bb) Increase in the number of business employees from the situation at the outset, for clients current as of 12.31.2016 from each cohort (2011 to 2015). Cumulative graph.

Improvement in education level
(by cohort) (cc)

Source: Information available for Bancamia, Banco Adopem and Fondo Esperanza. BBVAMF calculations.

Improvement in housing
(by cohort) (dd)

Source: Information available for all institutions apart from Emprende. BBVAMF calculations.

(cc) Proportion of clients current as of 12.31.2016 from each cohort (2011to 2015), whose situation improves from not having any schooling, to having primary, secondary, technical or tertiary education.
(dd) Proportion of clients current as of 12.31.2016 from each cohort (2013 to 2015), whose situation improves to having their own home, or that has made sanitation improvements (bathroom, septic tank) to their home, upgraded its construction material, their fuel system or increased the number of rooms from the number first registered.

3. Being part of the client journey

Access to responsible loans, combined with microentrepreneurs' hard work and skills, generate the right conditions for developing productive activities and contribute to reducing inequalities.

3.1 Reducing the economic gap

The data show that when clients renew loans with the Group's institutions, the economic gap between the various poverty segments shrinks. The performance of *per capita* net income relative to the poverty line[8] shows how much clients' average *per capita* net income grows during their relationship with the institutions in real terms, depending on the credit cycle they have reached (first loan and successive ones)[9]. On average, clients who are in a situation of *extreme poverty* at the outset take three cycles to get over the poverty line, and those in *poverty* need just one. For clients under the poverty line, the first cycle is when they grow fastest, and then the speed tends to slacken. There is also a gradual growth in the *per capita* net income of clients who are *vulnerable* when they join, as they renew credits with Group institutions; in the sixth credit cycle they are nearly over the *vulnerability* line (their net incomes are reported at 2.9, so nearly three times the poverty line).

Average *per capita* net incomes of *extremely poor* clients make it over the poverty line after two or three credit cycles, and those of *poor* clients, after one.

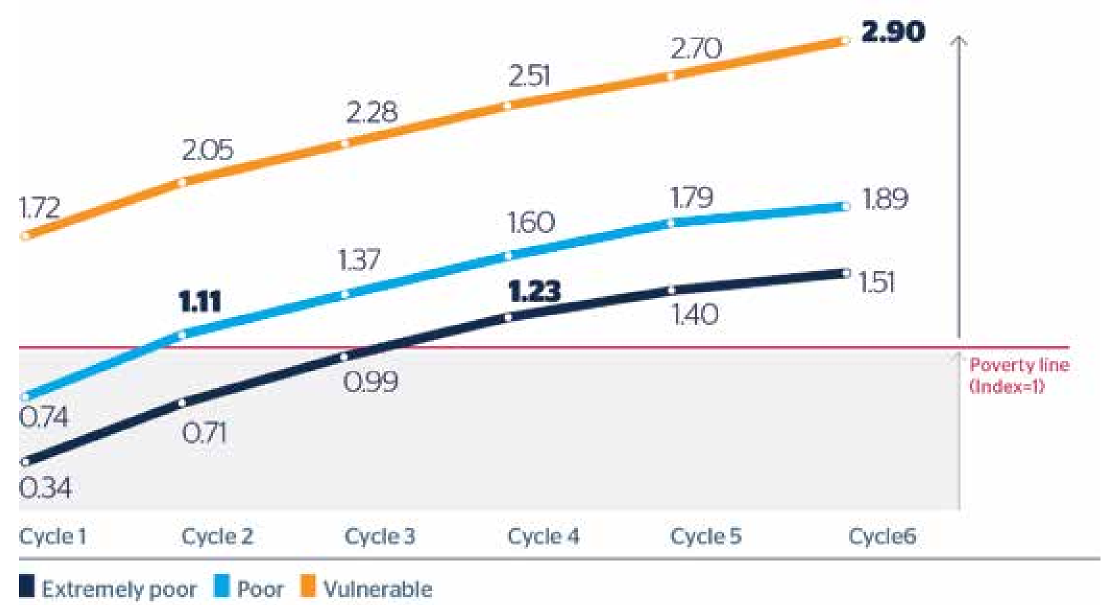
The growth in *per capita* net incomes relative to the poverty line is greater in the case of *poor* clients than those classified as *vulnerable*, and this pattern is true in all the institutions. In general, as clients consolidate their relationship with the entity, they achieve improvements in their *per capita* net incomes that enable them to rise above the poverty line.

3.2 Keeping the focus on creating long term relationships

One of the main characteristics of the microfinance sector is the high dropout rate in this segment of clients, added to the fact that the rump of clients who leave the institution do not do so to go to another, but just exit the system. The evidence indicates that poverty causes negative frames of mind that can lead to short-term attitudes when taking decisions and risk aversion, making formal commitments appear unmanageable. These states of mind are probably a limit on entrepreneurship, more efficient and effective behavior patterns, self-control and long-term planning. In many cases the stress of the relationship and the obligation taken on with a formal institution makes people prefer options that are more costly but informal and which, supposedly, give them greater flexibility.

These responses imply, on the one hand, that the industry operates at high costs to attract new clients, which impacts on the average size of loans and on the segment of clients served; they also stifle the positive impacts, which tend to grow the longer clients stay with the institutions.

Per capita net income relative to the poverty line (ee)



Source: BBVAMFG institutions. BBVAMF calculations.

(ee) In the case of the sample of clients served between 2011 and 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. It includes all institutions' individual credit portfolios. It therefore does not include Fondo Esperanza *Banca Comunal* clients, Banco Adopem *Grupo Solidario* clients, nor Financiera Confianza's *Palabra de Mujer* and *Inclusión grupal cuotas* clients.

So it is that, if the impact of the BBVAMF Group's activity is to expand, the client retention index is an extremely important indicator. After a year, on average 66% of clients continue their credit relationship with Group institutions and after two years a little less than half remain with them[(10)].

Although the fact that there are no significant variations between client cohorts is the reflection of a structural trend in the sector, it is still important to work on improving client retention rates, particularly during the initial phases of their relationship. With this in mind, the Group's institutions are implementing specific programs to build up longer term relationships.

In order to broaden the impact of BBVAMFG's activity, relationships with clients need to be long term.

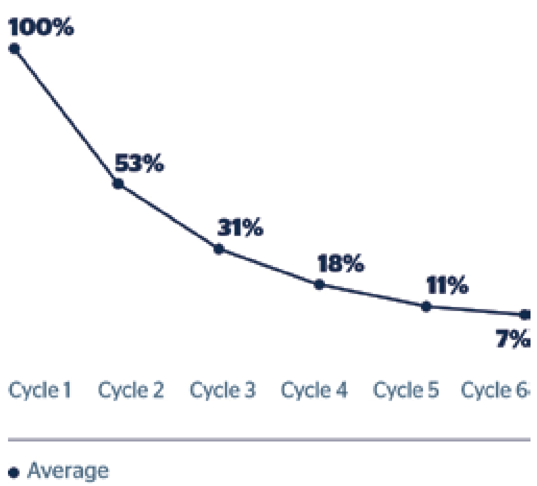
As an additional measurement to that of client permanence after certain time frames, recurrence is a measurement of the willingness of clients, in different cycles, to renew their loans, whatever the term of these loans. This indicator shows that on average 53% of clients take out a second credit, and 31% sign up for a third. The average period between taking out successive credits (period between cycles) is falling.

(ff) Percentage of clients in each cohort current on each date. Averages from 2011-2015 cohorts.
(gg) Clients served since 2011. Percentage of clients who, after a first loan, take out another. The distance between cycles is the time between disbursements of one credit and the next (the first does not have to be complete). All institutions' individual loan portfolios. It therefore does not include Fondo Esperanza *Banca Comunal* clients, Banco Adopem *Grupo Solidario* clients, nor Financiera Confianza's *Palabra de Mujer* and *Inclusión grupal cuotas* clients. The average distance between cycles is 367 days between cycle one and cycle two, 353 days between cycle two and cycle three, 308 days between cycle three and cycle four, 265 days between cycle four and cycle five and 221 days between cycle five and six.

Credit client retention (by cohort) (ff)

Source: BBVAMFG institutions. BBVAMF calculations.

Credit client recurrence (gg)



Source: BBVAMFG institutions. BBVAMF calculations.

3.3 Serving clients' differing needs

The outcomes described above suggest that permanent access to credit may be a safe and effective solution to aid development and reduce poverty. The average disbursement of clients who remain with the BBVAMF Group increases over time ($CAGR_{+4}$ 16%), starting from initial average loans of around USD 803.

Of the 268,582 clients who began their credit relationship with one of the BBVAMF Group institutions in 2016, their reported average monthly sales were USD 1,328, their average first loan was for USD 855, and the relative weight of the installment payment as a percentage of monthly sales was 8.3%, remaining at levels close to 8% since 2013 for new clients.

Over the total client base, the monthly credit installment payment accounts for 9% of average monthly sales. This percentage varies between different segments of *economic vulnerability*: the greater the *vulnerability* (lower business scale), the greater the relative effort of paying the installment as a percentage of sales. For clients classified as *extremely poor*, the installment is as high as 20% of their average sales, while for the *non-vulnerable* it is only 8%.

The cost structure falls as clients' *vulnerability* lessens, with a big difference by *vulnerability* (going from 64% for *extremely poor* clients, to 55% in the case of the *non-vulnerable*), reflecting a potential for efficiency improvements. Thus, the more vulnerable the clients, the less efficient the cost structure of their microenterprises and so the greater their sensitivity to cash flows when paying their loan.

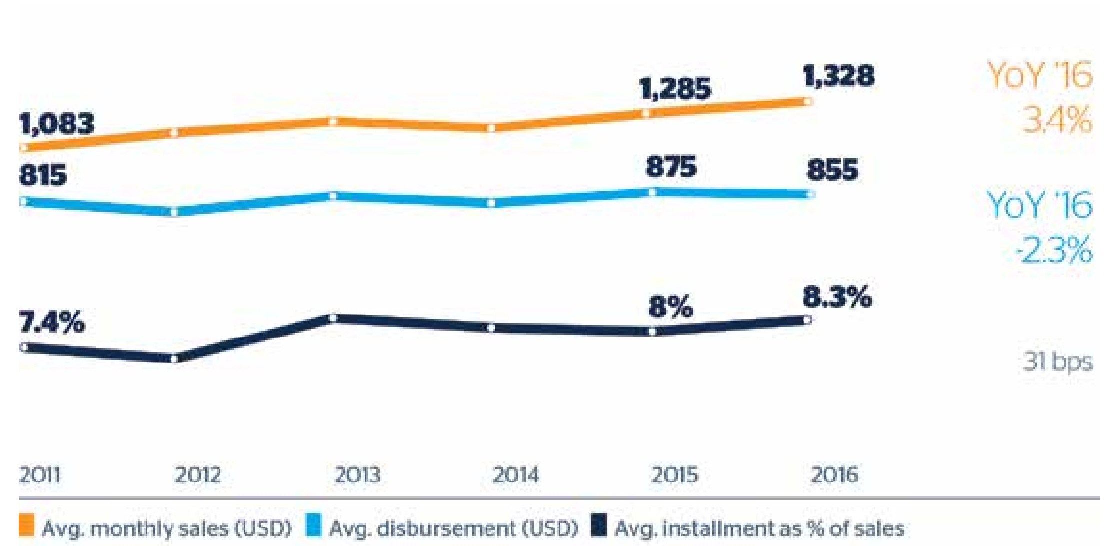
As well as credits, BBVAMF Group clients have access to other products. 49% of all clients have at least one credit product, and 35% have both credit and savings products. Furthermore, most clients have shown interest in diversifying their needs, and 49% also have insurance products.

Average disbursement per transaction (by cohort) USD (hh)

Source: BBVAMFG institutions. BBVAMF calculations.

(hh) Performance of average disbursement by operation depending on the time since the client was signed up (seniority). Average of 2011-2016 cohorts.

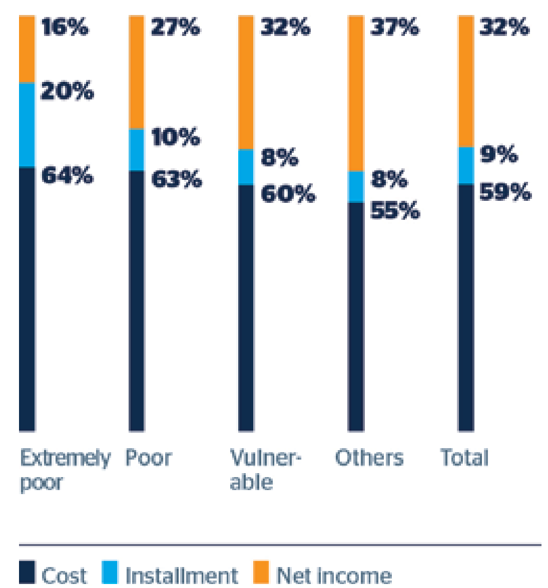
Sales, disbursement USD **& installment payment as % of sales, new clients** (ii)



Source: BBVAMFG institutions. BBVAMF calculations.

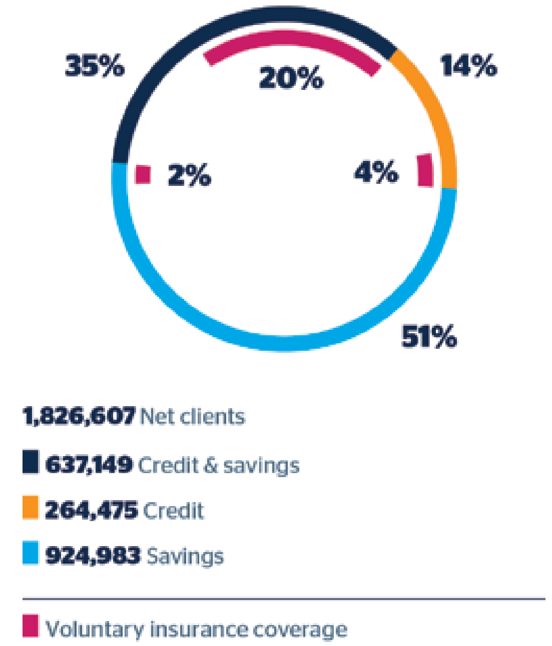
(ii) New clients (no previous loans) signed up over the year.
• Average disbursement (USD), calculated as average of each year's new clients' first loans.
• Weight of the payment installment, calculated as the ratio average (payment installment as % of sales) for each year's new clients.
(jj) Calculated on the number of clients reporting expenditure; that is, 82% of current clients as of 12.31.2016.
(kk) Clients current as of 12.31.2016. Linkage of credit products for all institutions. All institutions, apart from Microserfin, offer voluntary insurance products. Bancamía, Financiera Confianza and Banco Adopem also offer savings products.

Installment payment, expenses & margins as % of sales (jj)



Source: BBVAMFG institutions. BBVAMF calculations.

Number of clients by product type (kk)



Source: BBVAMFG institutions. BBVAMF calculations.

Increased product diversity is of benefit both to clients, who can better meet their different financial needs, and to financial institutions in the BBVAMF Group: the more wide-ranging the relationship, the greater the client retention, while greater impact can be achieved in terms of fulfilling BBVAMF's mission. As products become more sophisticated, the range will have to be diversified in order to achieve competitive advantages that, in terms of impact, will serve to create more stable relationships over the long term.

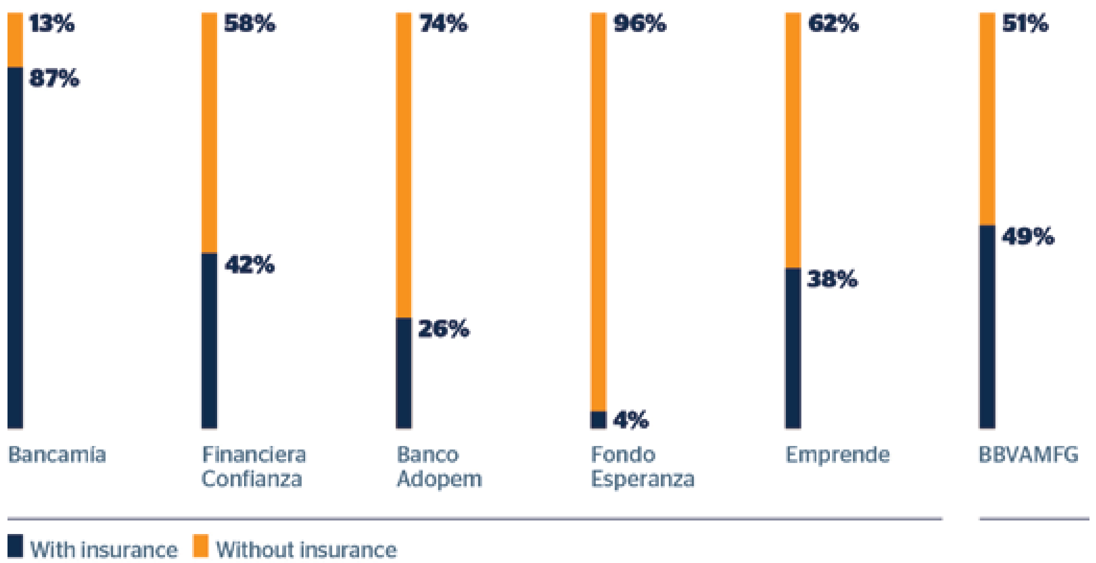
3.4 Voluntary microinsurance, a growth product

In aggregate, 49% of credit clients have a voluntary insurance active as of December 31, 2016, but the scenarios with this product differ greatly across the Group's institutions. This is due to the particularities of the value offerings and the needs of the clients served in each market, and also to each institution's different stages of maturity and independence in placing and managing microinsurance products. The product enjoys high and growing penetration among clients and helps to serve the needs of microentrepreneurs more fully.

Despite these differences, there are some aggregate patterns in microinsurance purchasing, such as, for example, the greater propensity to purchase on the part of *agriculture* sector clients, compared to other sectors, and the greater uptake, too, from less *vulnerable* clients generally.

The voluntary insurance policies sold by Group institutions are mainly life insurance (both those with a capital payout and funeral services), (personal) accident, damages (protecting the assets of microenterprises among others) and debit card protection.

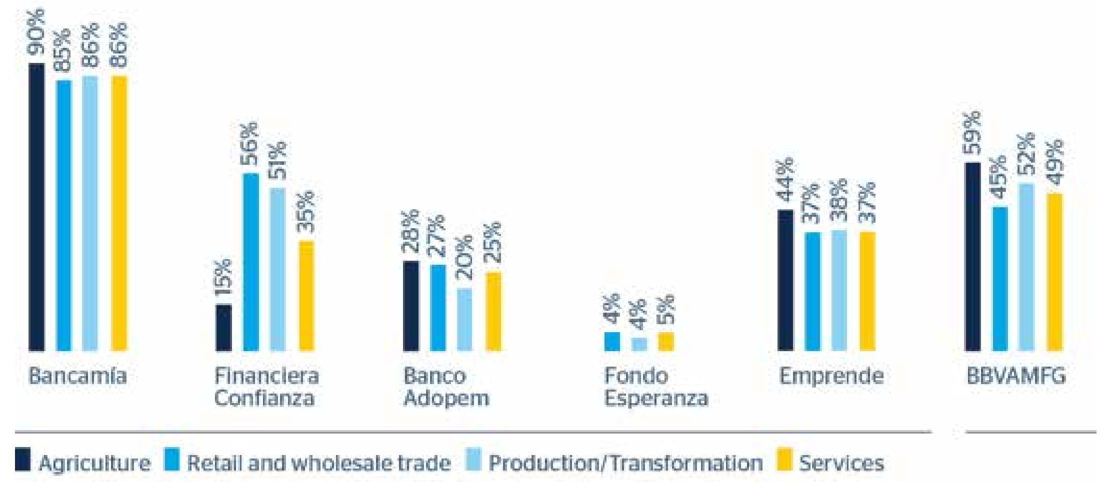
Credit clients with a micro-insurance policy (ll)



(ll) Possession of voluntary insurance by credit clients current as of 12.31.2016.

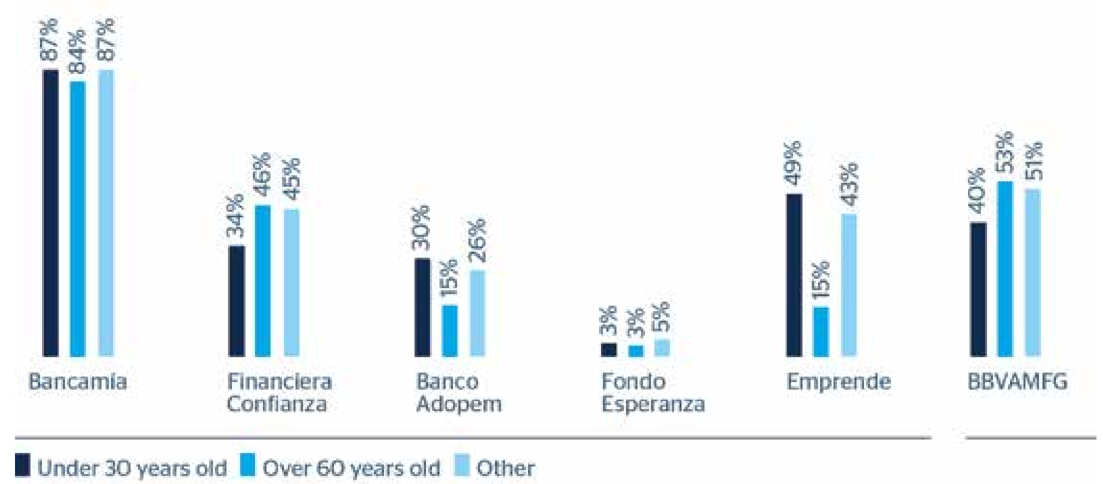
Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

Credit clients with insurance, by sector (mm)



Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

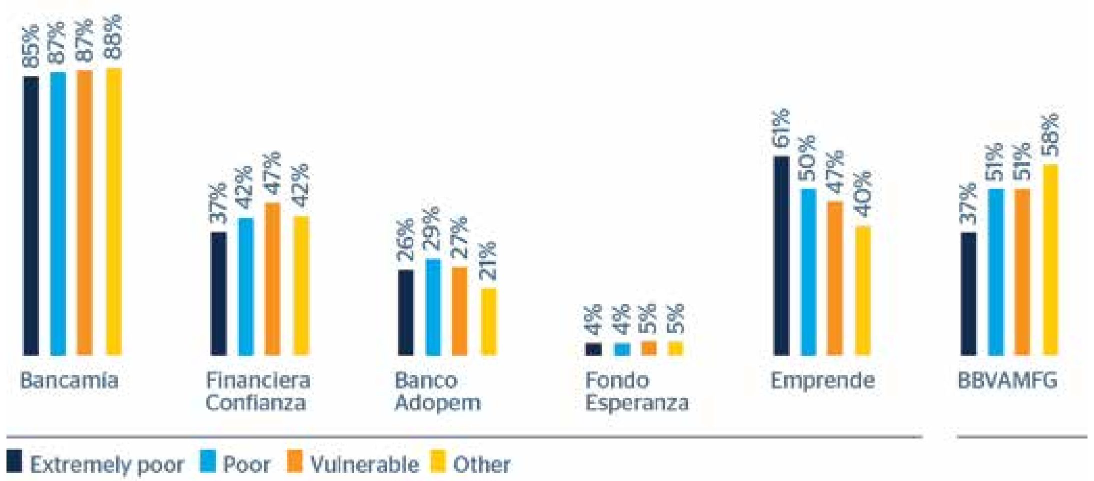
Credit clients with insurance, by age (nn)



(mm & nn) Possession of voluntary insurance by credit clients current as of 12.31.2016.

Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

Credit clients with insurance, by vulnerability (oo)



Source: Information available for all BBVAMFG institutions apart from Microserfin. BBVAMF calculations.

In view of the high penetration achieved with these products, the best practices in advice and marketing are being shared between one institution and the next. The chapter on Chile later on in the book contains a section titled *Microinsurance special project*, with an in-depth analysis of the Fondo Esperanza and Emprende case studies.

3.5 Client savings

Formal saving is an extremely powerful financial inclusion channel which enables more efficient use to be made of intertemporal client surpluses and which also serves as an instrument to protect them from future adverse situations. To the end of 2016, over 1.5 million BBVAMF Group clients had savings or deposit accounts. Of these, 41% had a current credit with the Group, while 22% only had savings products and have never had a loan with Group entities.

Turning to balances, as one would expect, term deposits have higher balances than savings accounts, and credit clients have lower balances than clients who only have savings.

In general, balances are low in savings products, partly because low-income clients, instead of using financial institutions' formal services, often keep their savings in informal places, such as at home, to be looked after by friends or family, investing in cattle or goods, or joining a savings group. Informal saving vehicles are important for many vulnerable people's lives, even though these methods entail greater risk, since they do not enjoy the safeguards of formal mechanisms.

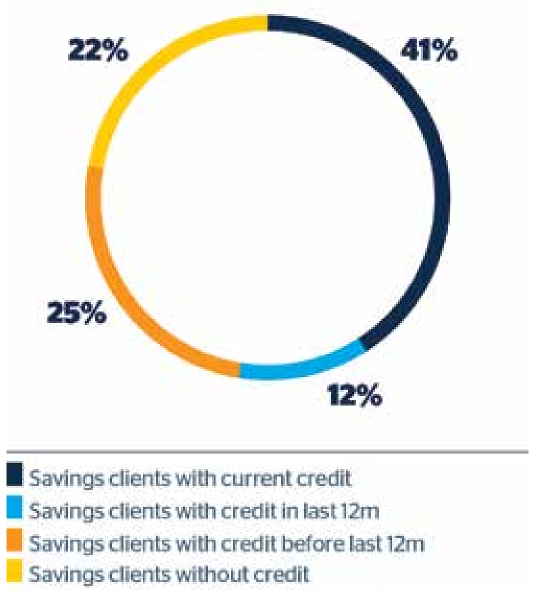
This preference is a response, in some cases, to the high transactional costs people face in gaining access to formal instruments, in terms of the average balance they have to pay in (costs of transfer to *cash in* channels) and/or high opportunity costs of closing their business in order to be able to visit their branch office. As soon as channels can be promoted that minimize these costs, these preferences will be reversed. Given that this restriction is acknowledged, Group institutions are working to extend areas of contact with

(oo) Possession of voluntary insurance by credit clients current as of 12.31.2016. *Vulnerability* is determined by the latest (current) monitoring of the client (last data point available).

Clients by savings product type ('000) (pp)

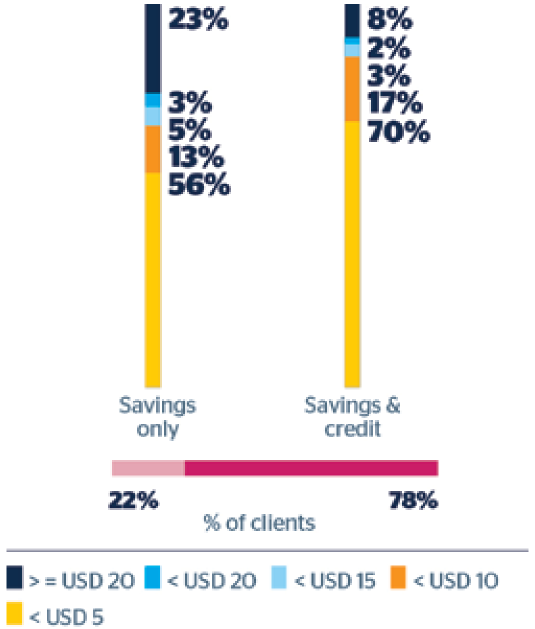
Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

Linkage of savings clients (qq)



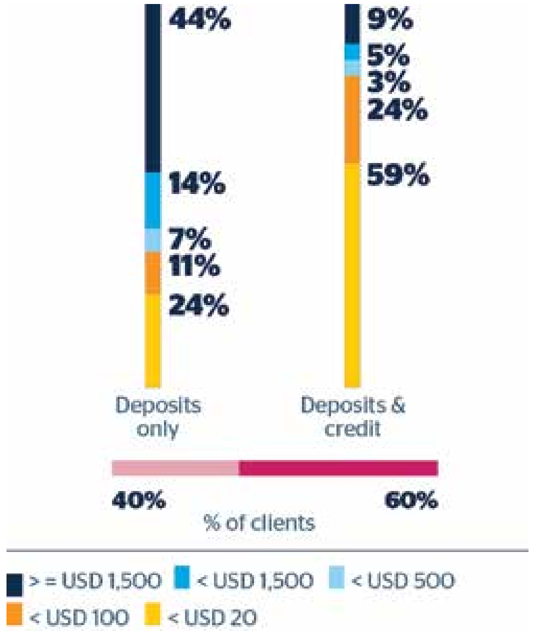
Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

Clients with savings accounts Breakdown by balance USD (rr)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

Clients with deposits Breakdown by balance USD (ss)



Source: Bancamía, Financiera Confianza and Banco Adopem. BBVAMF calculations.

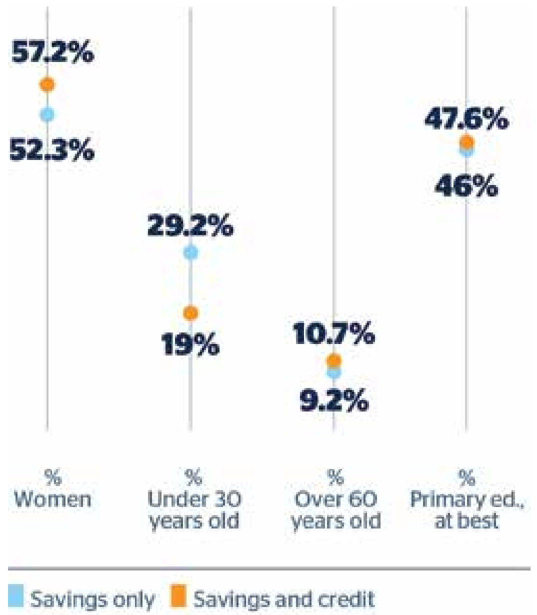
(pp) Clients with savings products (savings and deposit accounts) as of 31st December of each year.
(qq) Clients with savings products (savings and deposit accounts) as of 12.31.2016.
(rr) Breakdown of clients with savings accounts as of 12.31.2016, by balance on 12.31.2016, distinguishing between those who are savings clients only and those who have savings and credit (who have had some kind of loan with the institution).
(ss) Breakdown of clients with deposits as of 12.31.2016, by balance on 12.31.2016, distinguishing between those who are savings clients only and those who have savings and credit (who have had some kind of loan with the institution).

clients, getting closer to them through mobile offices and a network of banking agents (see chapter titled *Innovation in our DNA*).

Clients who only have savings are proportionately younger, have slightly more education, and there are less women compared to clients who have both savings and credit. Also, their household structure is less stable, with a high proportion of people who are single, separated or widowed.

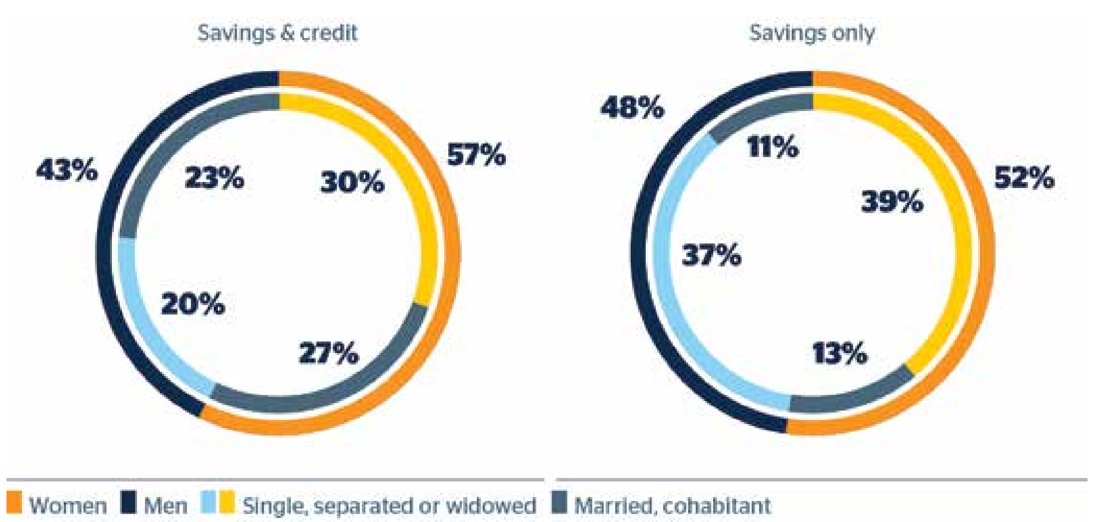
There is a niche that needs pursuing in the natural market of credit clients in order to guide them towards formal saving. 53% of savings clients have a current credit or have had one in the previous 12 months, which means that great potential exists to promote a culture of saving. Achieving success in the inclusive savings product offering is very important from the social performance perspective, as it generates positive impacts that include being able to absorb economic shocks, increase investments and improve the material quality of low-income people's lives. ■

Profile of savings clients (tt)



Source: Bancamia, Financiera Confianza and Banco Adopem. BBVAMF calculations.

Savings and credit clients and savings-only clients (uu)



Source: Bancamia, Financiera Confianza and Banco Adopem. BBVAMF calculations.

(tt & uu) Client profiles and households with savings products (savings/deposit accounts) as of 12.31.2016, distinguishing between those who only have savings and those who have savings and credit (some kind of loan with the institution as of 12.31.2016).

Conclusion

The results presented in this report demonstrate the positive relationship between access to the microfinance products and services offered by the BBVA Microfinance Group's institutions, and the progress that low-income entrepreneurs make over time; this verifies BBVAMF's alignment with its mission.

In terms of the development of its microenterprises, clients' businesses experience annual growth rates of 18% in their sales and net incomes, and 26% in their assets; this means that in four or five years they succeed in doubling their initial sales and tripling their assets.

This progress leads to many of them managing to rise up out of segments classified as *poor* or *extremely poor*. In general, after two years of a relationship with the BBVAMF Group, client segments classified as *poor* or *extremely poor* at the outset of their credit relationship shrink by 38%, and by 54% after four years. On average, clients who start from a situation of *extreme poverty* need three credit cycles before their *per capita* net incomes rise up over the poverty line, while those starting in a situation of *poverty* only need one.

The characteristics intrinsic to the performance of each sector by different levels of *vulnerability* are factors that account for the concentration of BBVAMF Group clients in the *trade* and *services* sectors. For *vulnerable* clients in particular, insofar as it is possible to reduce the barriers to entry to other sectors, there is high potential for growth and wealth creation.

Clients' margins increase as their *economic vulnerability* falls, and their capacity to hire employees increases over time: 7% manage to create at least one job after two years, with the consequent positive impact in their communities.

Clients also experience improvements to their living standards in other dimensions: 8.5% make improvements to their housing after two years, and nearly 5% manage to raise their level of education after four.

Given the speed of change, the greater uncertainty and huge complexity of the external factors facing microfinance institutions in the future, the acquisition, accumulation and use in decision-making of diverse types of abilities will be key factors in serving vulnerable clients comprehensively, while still maintaining financial sustainability and operational efficiency. This must be done by embracing diversity and promoting the capacity to coordinate teams across different locations with diverse skillsets.

The BBVA Microfinance Foundation stands out for its expertise in coordinating these diverse levels of knowledge:

- Global knowhow (methods of analysis, management practice, technology applications) inherited from its philanthropic founder, the BBVA Group, and then transferred to BBVAMF Group institutions by the BBVAMF team in Madrid.
- Valuable local knowledge (economic circuits, value chains, culture and environment) provided by the microfinance institutions making up the Group portfolio.
- Its individual clients' immense store of knowledge.

So it is that in 2016 significant progress has been made to integrate these components of social performance management by using new indicators that more closely reflect clients' realities and dynamics: continuous research that seeks to better understand the relationship between the products and services offered and clients' progress; management that puts the focus more clearly on the clients, including mission targets for signing up vulnerable clients, and more intensive regular tracking of social performance with Group institutions. These factors are critical to keep up the success in fulfilling the Group's mission.

> Clients' economic and social development, as seen in the results of this report, is a confirmation of BBVA Microfinance Foundation's alignment with its mission

In the face of the huge magnitude of poverty and the multiplicity of its causes, the social performance management being carried out by the BBVA Microfinance Foundation may seem like a drop in the ocean, but it is important, marking out a route to achieving a proper balance between the sustainability of the Group's MFIs and the value that they bring to society. ■

Notes (1) Includes those classified as *extremely poor, poor* and *vulnerable*. (2) This percentage has changed since 2015 as a result of a reclassification in Peru. Financiera Confianza (Peru) did not have the data on household member numbers for 2015 and earlier, so the national average was taken (3.7, INEI data). Collation of this data began in January 2016 and is being added, client by client. (3) Clients who renewed a credit in 2016 and/or updated financial information about their microenterprises, and whose latest *per capita* net income ratio against the poverty line (recorded point in time) improved from their situation prior to 2016, or improved with respect to their initial situation in the case of clients new in 2016. (4) CEPAL, *Inclusive Social Development: a new generation of policies for overcoming poverty* (2015). (5) *Poor* includes clients classified as *extremely poor* and *poor; non-poor* includes clients classified as *vulnerable* and *others*. (6) The 2015 report presented per capita net income; in 2016 the business net income is presented (without dividing by the number of people in the household). (7) Data provided by 57% of all clients as of 12.31.16 (not including Bancamía), who in turn employ 104,674 people. Assuming a proportionate number of Bancamía clients, an estimated total of 182,790 jobs were generated by all credit clients. (8) Net business income, divided by the number of household members relative to each country's poverty level and environment type when recording the data (generally, at each disbursement). For more details, see *Notes on methodology*. (9) In each client credit cycle there is a relation between their per capita net income and the poverty line that year, which can be expressed as a proportion. Values of less than one indicate a per capita net income under the poverty line; a value of more than one indicates that the client has per capita net income above their country's poverty line. (10) The outcomes are very similar to 2015; however, the Group's retention rate in previous years is not comparable because it is affected by the distribution of the number of clients that each institution contributes to the aggregate value.

A note on information constraints
The results in this report are based on quarterly reporting of the institutions in the BBVA Microfinance Foundation Group (BBVAMFG or the Group). They are based on information that has been collated by credit analysts from applications submitted for the Group's various financial products. In view of the importance in the business model of lending to clients with small productive units, most of the analysis has been conducted on credit clients (900,000 current clients and over 2.7 million in the historic database).

The variables and the criteria used in each country have been aligned to ensure that the data are homogeneous and can be compared. The inputs are collated by local credit analysts, often from the same community as the client, so the analysts themselves validate the accuracy of the information. Furthermore, the information goes through a detailed validation process by the local risk team; as such it is considered as reliable an information source as it is possible to be.

Once the data has been input into the core banking and data IT systems of each microfinance institution (MFI), an ETL (extract, transform and load) process is conducted every quarter; the BBVA Microfinance Foundation carries out in-depth checks for external and internal consistency and reliability, verifying and filtering any measurement imprecisions (outliers, for example) to guarantee that the data is of good quality, complete and accurate. Whenever possible, the data are also compared with other BBVAMF departments (risk, sales and finance).

The indicators (the outputs) are constructed using a single methodology and subjected to sensitivity checks to ensure their consistency. Results are validated every quarter with local MIDE teams and the MIDE team in BBVAMF makes improvements and reviews methods as necessary. The process is dynamic and aims to ensure a consistent, clear and reliable data source.

However, given that the databases are heterogeneous and different processes are involved in collating them, BBVAMF recognizes that it is a challenge to hold information that reflects each client's reality, and that it is difficult to keep a comprehensive database. Differing processes and legal realities have on occasion limited the data available for analysis. Steps have been taken to mitigate possible bias and data gaps to ensure that the analysis is as robustly accurate as possible. Specific details on data limitations can be found in the *Information Limitations* section.

Creating more opportunities for women and reducing inequality

Being a woman in Latin America still implies having to face significant inequality gaps with men. Despite the shortening of distances over the last few years in areas such as education and health, economic gaps remain, of poverty and access to the financial system. BBVAMF is fighting to make this distance shorter every day.

1. The status of women in Latin America

In the last 50 years, the situation of women in the world has improved greatly. They now account for around 40% of world employment, and the same numbers of girls go to school as boys. In relative terms, parity in secondary education has nearly been achieved and more women than men go on to higher education. All the health indicators have improved significantly, as has life expectancy, which has risen by between 20 and 25 years in most parts of the world in the last five decades, reaching a global average of nearly 74. This progress has also been visible in terms of rights and representation.

Nevertheless, there is a great deal left to do, particularly in the field of promoting economic opportunities, which is one of the arenas where the status of women differs most from that of men. As of today, only two of every four women of working age is included in the active population, whereas in the case of men it is three out of every four. Women do two and a half times as much unpaid work as men.

On the whole, when they join the labor market, women still lag behind in terms of income and productivity. An example of this is the disproportionately high presence of women from low-income backgrounds in less productive activities, in self-employment and in the informal economy. Even in waged work in the formal sector, they tend to proliferate in lower-paid occupations and sectors. This creates a series of gaps which are reflected in the greater likelihood of women being poor or more vulnerable, as well as being excluded in some markets.

About 31.6% of the world population, that is, 2.27 billion people, are poor[1] and 766 million, ie. 10.7%, are extremely poor[2] Of every 10 people in poverty, six are women[3]; in other words, 38% of women are in this situation, as compared to only 25% of men.

Although both men and women suffer poverty, the reality is that women have fewer resources with which to cope. They have fewer opportunities to work or start businesses and are over-represented in the worse-paid jobs, those in the informal economy and without any kind of occupational security. In the case of many developing countries, these economic determinants are exacerbated by factors of inequality in social and economic power, or discrimination on the basis of race, religion or class. So much so, that in some societies even their health care is more limited, or basic needs such as proper nutrition are sidelined.

In order to consider the causes of this situation in more depth, it is important to analyze the composition of households and their impact, particularly in developing countries; the limitations of the labor market; their higher participation in the informal sector and how this determines the characteristics of their enterprises; together with certain institutional factors that create conditions of exclusion, or in any event do not encourage the inclusion of women on equal terms.

1.1 The poverty rate in Latin America

Latin America is not immune to this dynamic, which affects women throughout the world. According to the global average for the poverty line, which is USD 3.18 day, 11.3% of the population is poor. If we use another measurement, the average of the region's poverty lines (USD 5.63/day), the poverty rate rises to 29.2% of the population, that is, 185 million people. Of these, about 78 million, 12.4% of the population, is in a situation of extreme poverty.

Around 95.1 million women and 89.4 million men in Latin America live in poverty. 51.6% of the poor are women.

In general terms, in Latin America there is not a huge difference in the aggregate poverty rates between men and women[4]. Around 95.1 million women and 89.4 million men live in situations of poverty. 51.6% of the poor are women, 1.1% more than their participation in the total population (women represent 50.5% of the total population).

In the region, 80% of the population lives in urban areas and as such, poverty levels are determined by what goes on in the cities. Of every 100 poor people, 67 live in urban zones and 33 in rural areas, meaning that the urban poverty rate is 22.7% of the population. If we look at the urban poverty rates by gender, we see that 22.1% of men are poor, whereas the rate for women is 23.3%. In rural areas, meanwhile, poverty among women stands at 44.1%, but among men it is 43.3%.

In other words, for every 100 urban dwellers, there are 11.7 women and 10.9 men in poverty, nearly 4.4 million more women than men in this situation; whereas in country areas there are 22.3 women and 20.9 men in a situation of poverty, around 1.7 million more women than men.

Even so, Latin America is one of the regions with the smallest disparity in the world between poverty among men and that of women. Around 70% of people in poverty live in southern Asia and sub-Saharan Africa, areas where the levels of female empowerment are lower, as shown by the wider poverty gaps.

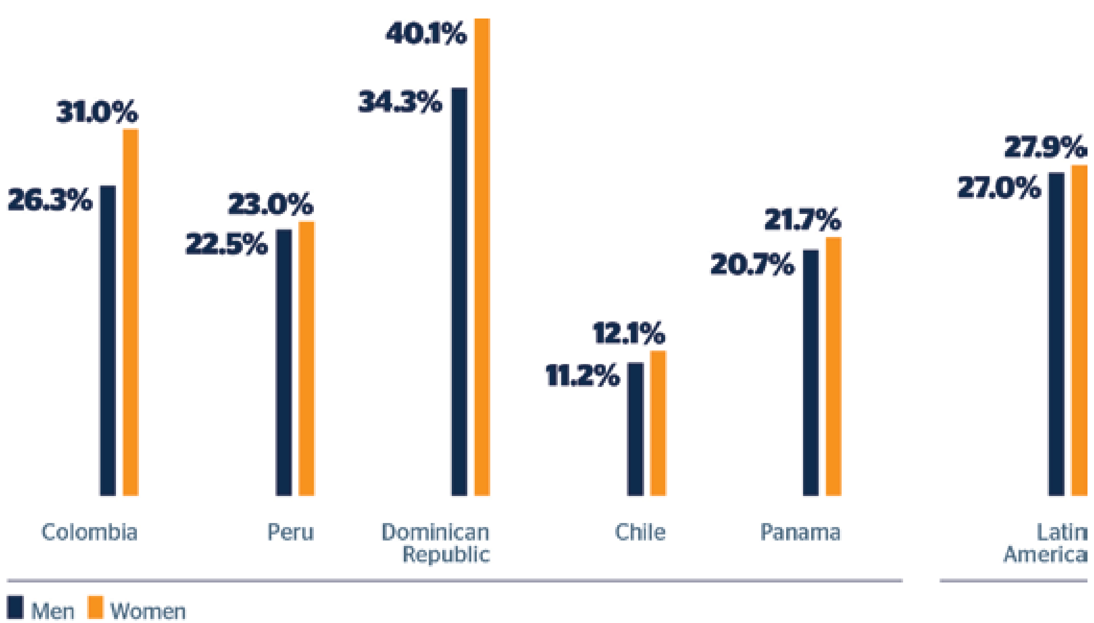
The biggest gaps are in the 25 to 34 year group, where female poverty stands at 27.3%, whereas among men it is 21.8%. This can be verified in both urban and rural areas, with differences in the poverty rates between men and women of 5 and 7.2 percentage points (p.p.) respectively. The widest gap between genders coincides with the years when women are of child-bearing age.

What is important about these figures is that they reflect the restrictions women experience in the labor market, many of them associated with motherhood, which produces major differences in terms of access to economic opportunities and the attendant disparities in income and productivity between women and men at these ages.

This means that the indicator for women in poverty, between 20 and 59 years old, compared to poor men in the same age group, stands at 118.2, a rise of 4.7 points over the last five years. The results show that, although the overall percentages of poor men and women fell over the period analyzed, the rate of reduction was slower among women of working age, which explains the indicator's sustained rise.

More important in the case of Latin America is the fact that 42% of women in poor households do not earn their own incomes. This proportion falls to 17.2% in richer households. On average, 29% of women, nearly one in three, whatever their economic situation, do not generate their own income. 14 years ago, this average ratio stood at 42%. Despite this slight increase in recent years, women are still very vulnerable; furthermore, there are a series of behavioral conditioning factors in society which explain a good part of the existing disparities.

Poverty rate in Latin America, by gender (a)



Source: Chile, Casen 2015; Colombia, Dane 2015; Panama, Peru, Dominican Republic & Latin America: Cepal 2014.

If we strip out the non-contributory transfers received from the state, 36% of women have no income, whereas only 11% of men find themselves in this situation. Having one's own income does not guarantee full economic independence, given that, when incomes are meager, the dependence of other household members continues. In Latin America as a whole, around 24% of women with their own earnings do not make it to the poverty line on a *per capita* basis, in other words, they cannot escape poverty, which puts women in a manifestly dependent economic situation.

1.2 Development gaps between men and women

In this area, after Europe and North America, the region with the third narrowest gender gap is Latin America and the Caribbean. In the last few years the distance has shortened considerably. 96% of the gap in healthcare between women and men, and more than 95% of the education gap has been closed. Nevertheless, the differences between women and men in economic participation remain considerable(5).

The gap in economic participation has only closed by 59%. The average wages of urban women between 20 and 49 years old on a steady wage, who work 35 hours or more a week, is 84% that of men in similar circumstances and the gap has only narrowed by 12% in the last 14 years(6).

The biggest gaps are to be seen in the more highly educated workforce. Women who have been educated for 13 years or more receive only 74% of the salary received by men with the same amount of education. The gap has fallen by 9.3 p.p. in the last 14 years. This demonstrates how progress made by women in education and professional training has not brought their incomes in line with those of similarly educated men.

Women make up 40% of total employment but account for 60% of those who work fewer hours and part-time.

More than a quarter of the wage gap is due to the different jobs held down by men and women, while approximately 10% is due to the fact that women are more given to leave work to look after members of the family. Mothers earn approximately 7% less per child than women without children (looking after children leads to less time spent on one's working life and therefore lower income). To a large extent, these revenue gaps are accounted for by the imbalance in the proportion of unpaid work done by men and women, which limits the capacity of women to increase their formal and paid working hours.

In developing economies, women in employment spend nine hours and twenty minutes a day on paid and unpaid work, while men spend eight hours and seven minutes. As a result women, who make up 40% of total employment, account for 60% of those who work fewer hours and part-time. This is particularly important in low-income households and one-parent families, or in two-parent families where the woman is the head of the household.

1.3 Importance of household composition

In Latin America there has been a major transformation in household composition. Two-parent households now only represent 40% of the whole. Households of this type, but with big families (which include other family members), represent 12% of the total. That is, households where men and women live together account for 52% of the whole[7].

One of the structural elements in the change in vulnerability levels among women in the region is the make-up of households. In recent years, the number of one-parent households led by women, including extended families, rose by 17%. In about 90% of households where the head of the family is a woman there is no spouse. *Per capita* income in these homes fluctuates at between 80% and 95% of *per capita* income of those households where the head of the family unit is a man.

The weight of unpaid work conditions women's access to the labor market, whether they are the heads of one-parent households or not. This factor also determines the preference for self-employed activities in the informal sector, the bulk of them in less productive sectors, mainly the service sector. 62% of women work in this sector.

One of the elements in women's vulnerability is the composition of households. In recent years, one-parent households headed by women have increased by 17%.

This segregation by sector and occupation contributes much to gender inequality, both in terms of employment numbers and in their quality.

1.4 Labor market and the informal sector

One of the main sources of gender inequality is the difference between levels of inclusion in the labor market. The participation of women of working age in the labor market is 26 p.p. lower than that of men. The gaps between the labor participation rates of men and women rise to 40 p.p. in the case of the lowest-income segments. Thus, the poorest women have the greatest difficulty in entering the job market, which represents a key obstacle to their overcoming poverty[8].

Most of this segment operates in the informal economy (47% of women's employment is in the informal sector) and, furthermore, they spend most of their time on unpaid work (such as domestic tasks or caring for people). On average, women work 65 hours a week, spending 60% of this time on unpaid work, conditioning the type of paid job which they can access, since they can only spend 25 hours a week on average on this.

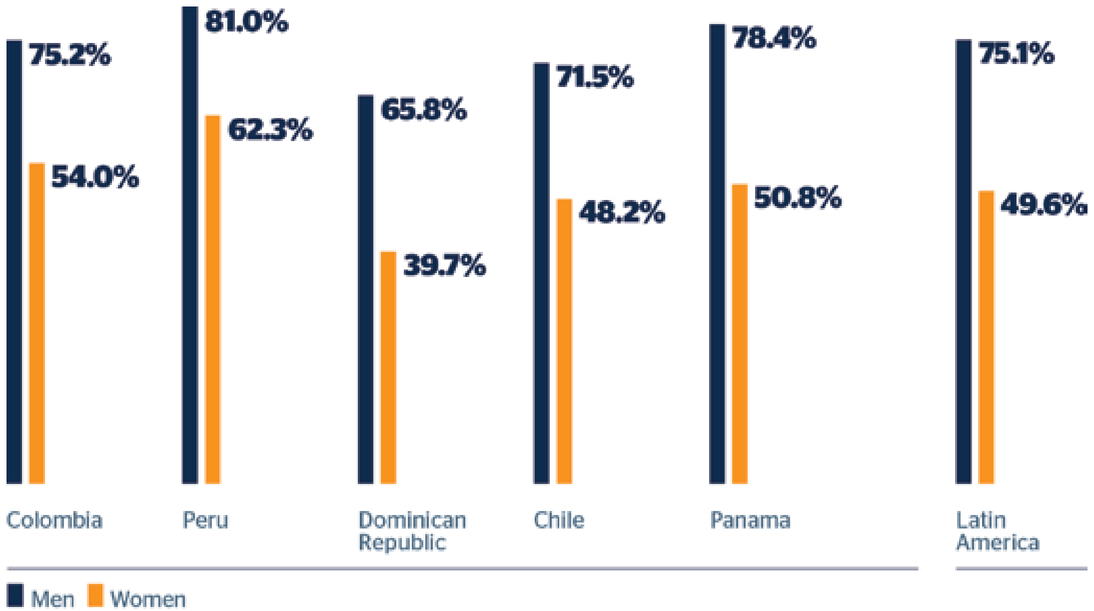
This pattern of greater dedication by women to looking after members of the household and to domestic tasks has a direct impact on decisions about employment and economic activity, limiting their options and restricting their employment possibilities to less productive segments, mainly the service sector. These limitations, which are mutually reinforcing, account for lower female productivity and the difficulties of overcoming this barrier. In addition, women's access to the labor market in segments with less training and skills (low human capital) comes up against the restrictions implicit to the main sources of supply for these segments, generally in the construction and agricultural sectors.

In construction, there is low female participation, mainly for physical reasons, while in farming most women's jobs are unpaid, leaving *services* as the most employable sector.

Latin America accounts for 37% of the entire world's domestic work. 93% of those carrying out these domestic jobs in the region are women, representing 15% of all the jobs done by women. This explains why the gap in the segments with higher incomes falls, because women with higher incomes spend fewer hours on unpaid work. Most of this type of employment is part-time and under informal conditions.

On average, women work 65 hours a week, spending 60% of this time on unpaid work.

Labor participation rate, by gender (b)



Source: ILO based on information from national household surveys.

BBVAMF
Empowering women

Productivity in Latin America and the Caribbean could increase by 25% if women´s entrepreneurial capacity were promoted.

1.5 Women's entrepreneurship

In Latin America and the Caribbean, 17% of the adult population takes part in some kind of entrepreneurial endeavor, which makes it one of the regions with the highest rate of entrepreneurial activity in the world. However, most of the enterprises in the region are in self-employed activities, which try to surmount labor market restrictions or the lack of work openings; they are not based on opportunities for innovation. On average, 29% of the people with income in the region are self-employed or small employers[9]. This is evident in the fact that companies are smaller than those in other regions with similar levels of development, and that not even the bigger companies create as much employment as other regions.

Around 40% of women are self-employed and they are the main growth driver of this type of enterprise. The average income of self-employed workers in Latin America is only 75% that of waged workers. This, combined with the fact that on average an employer in the region earns 2.6 times more than a waged worker, and 3.4 times more than a self-employed worker, accounts for part of the gender gap in incomes, given that the participation of women as employers is half that of men.

Most of the enterprises in the region are in self-employed activities, trying to surmount labor market restrictions or the lack of work openings; they are not based on opportunities for innovation.

The association between education levels and self-employed jobs is also a clear one. Less than four years of basic schooling is very common among the self-employed. Women with this low level of schooling are 2.6 times more likely to be self-employed than other women with more schooling, which conditions the type of enterprise and their productivity.

The likelihood of women being self-employed falls as the number of hours worked a week rises. So, women working less than eight hours a week are 3.2 times more likely to be self-employed than women who work more hours. This is probably a sign of their needing more flexibility to be able to fit paid work in with their domestic responsibilities.

An analysis of enterprises linked to self-employment reveals that women invest 50% less capital than men and achieve 20% more income. Despite this higher productivity, the lower investment is connected to the greater financial restrictions faced by women who depend to a large degree on informal financing sources. Thus, it is essential to promote financial access in order to drive these channels for promoting entrepreneurship, whether to mitigate the restrictions facing women in the labor market, or to encourage growth in their participation as employers.

This has significant implications, given that productivity in Latin America and the Caribbean could increase by 25% if women's entrepreneurial capacity were promoted. They make up over 40% of the region´s economically active population, but their contribution as entrepreneurs is only 15%.

1.6 Financial inclusion and gaps in access

43% of adult women throughout the world, about 1 billion people, do not have access to formal financial services, compared to 35% of men in this situation[10]. There is a significant difference in the ratios between female financial inclusion because they depend on multiple factors, in many cases being the product of discrimination on religious or cultural grounds, or legal restrictions preventing women from signing contracts in their own name, including opening a bank account, and having independent management of their own income.

The financial gap due to gender remains 9% in developing countries, although in some parts of the world it is much higher. The part of the world with the lowest financial inclusion for women is the Middle East, where 91% are not in the financial system, while the figure for men is 81%.

However, the region with the widest gap between men and women in terms of access to the financial system is Southern Asia, where there are 18 p.p. more men holding bank accounts than women. In Latin America, around 115 million adult women, 52%, are outside the financial system, making it the region with the lowest gender gap (4%), together with East Asia and the Pacific. The ratio of women's access to the financial system in high-income OECD countries is 94%, a distance of just 0.5 p.p. from the men.

In Latin America, around 115 million adult women, 52%, are outside the financial system.

Financial inclusion plays an important role, as our results show, in increasing women's economic independence, inasmuch as they increase their assets and are fully empowered. The simple fact of having a financial account is of great value to the most vulnerable women, representing a safe place where they can save their net income, incomes that in general they spend to the benefit of members of their household. This is particularly important when they receive direct transfers from social programs.

Around 9.5 million women in Latin America receive direct transfers in cash. The figures show that the positive impact on households of transfers received through a bank account are greater than transfers received in cash. The reasons are directly correlated with the nature of these segments, both male and female. Access to cash leads people to make decisions thinking only of the short term: self-control is required and it becomes difficult to take decisions with the future in mind. For example, having a bank account, particularly if it is linked to regular patterns of use, helps to reduce potential problems of self-control and third-party pressure.

37% of women in Latin America report having saved in the past year, but only 30% do so using a formal account in the financial system, while 35% of men who report having saved, 44% do so within the financial system The rest use informal savings methods, particularly saving clubs or people outside the family. 22% of women's savings is used to start an activity or expand a current one, whereas men use 30% of their savings for that purpose: women instead use more of their savings on household-related expenditure.

30% of adult women in the region have requested some kind of loan in the last year, a 4 p.p. gap between men. 32% of these loans were applied for through the financial system, with the same reported difference, between loans requested by men.

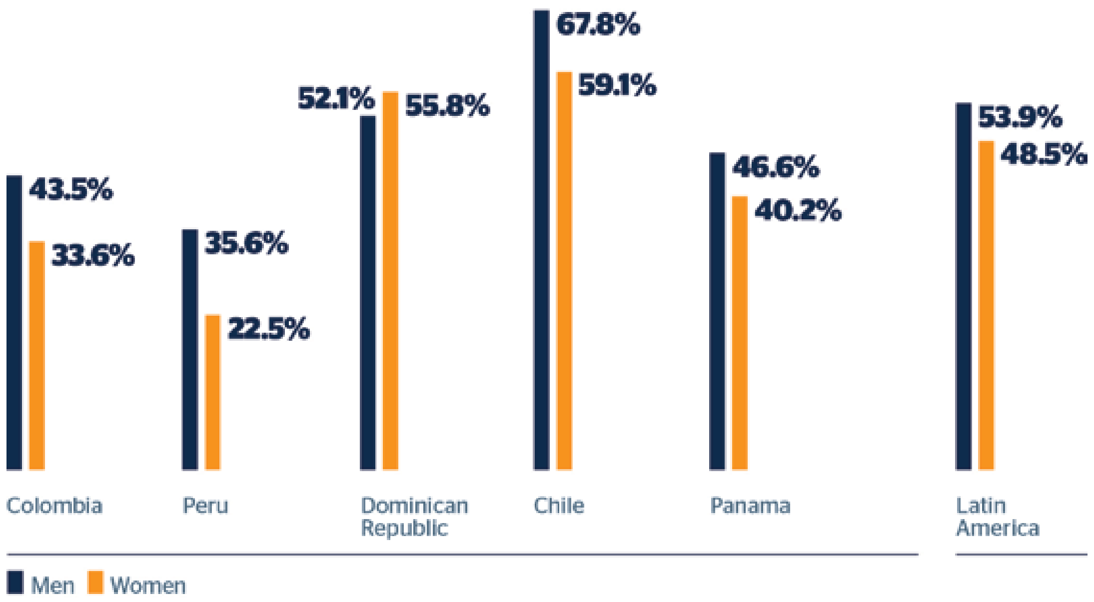
Women's lower savings rate and fewer applications for loans to start or expand their enterprises show that, to a large degree, they are involved in self-employed activities, instead of a wage working for someone else. It also conditions their work to being in activities with lower productivity and less risk compared to men.

On the whole, women find it more difficult to provide collateral and may have a weaker credit history. These results suggest that women, as a general rule, may be suffering from a negative bias on the admission scoring used in credit risk software. These restrictions on the part of formal institutions are also manifest in informal sources of funding.

Lower access by women to financial products is one of the key factors behind their greater vulnerability to income shocks and their lower capacity to invest, save and plan for the future. Promoting financial inclusion for women is one of the areas which has the greatest impact on reducing the gender gap in several categories.

Financial inclusion plays a major role in increasing women's economic independence inasmuch as it increases their assets and they can become fully empowered.

Financial inclusion (% of people over 15 years old with accounts in the financial system) (C)



Source: Global Findex Database 2014.

1.7 The importance of the state's role

Undoubtedly, one of the most unacceptable gender gaps is the one created by the state itself, both by the institutions and the legislative superstructure, which stunts equal opportunities, preventing women from choosing the best for themselves and their families. The gap in equality of opportunities deriving from the institutional and legal framework restricts their capacity to take economic decisions in a number of ways and, in many cases, is the main cause of the gaps mentioned earlier.

The dimensions that tend to account for the bias are the following: the legal capacity women (married or not) have to interact with public authorities and the private sector without sexual discrimination; women's capacity to own, administer, control and inherit goods; ownership rights of women in the conjugal residence; restrictions on women's work; incentives for maternity or paternity, and legislation against gender violence in all its forms.

When all these dimensions are analyzed, they reveal that Middle Eastern and sub-Saharan Africa countries have the most restrictions, basically linked to social conventions of a religious nature. Latin America as a whole has made progress towards greater equality. Caribbean countries lag in some ways and others, such as Chile, despite having advanced in gender equality, still treat couples as a partial community property, legally administered by the man, which has major implications from the perspective of empowerment[11]. Other more general restrictions have to do with the limited or nil cover enjoyed by self-employed women during maternity, which explains the higher poverty levels associated with periods of fertility.

In recent years, however, the distances have been shortening, and reforms have been passed to increase women's economic opportunities, although there is a great deal left to do. Where legal disparities based on gender prevail, women's opportunities are not equal and the gaps are endemic.

> The most unacceptable gender gaps is the one created by the state itself, which stunts equal opportunities.

2. Women as a key factor in development

Since the BBVA Microfinance Foundation was set up, women have had a key role in all the countries in which it operates, whether because of the history of institutions in the group, (Women World Banking, in Bogota and Medellin, Asociación Dominicana para el Desarrollo de la Mujer [Dominican Association for Women's Development] and Fondo Esperanza), or because of the special opportunity that the portfolio of financial services for small entrepreneurs offers women and their families.

Experience has shown that economic development and poverty reduction are more likely to be achieved when an investment is made in women's economic empowerment and the gender gaps are narrowed. Women are particularly concerned with their families (their children's education, housing and health). These factors are the drivers for their effort, their struggle and their work, so supporting women also means supporting the next generation, making a future with better opportunities and higher standards of living a possibility.

A McKinsey report[12] revealed that if all countries reduced the current gender gap in the labor environment, down to the level of the most equal country in their particular region, it would add USD 12 trillion to GDP by 2025. This increase would be possible if investment were made on reducing gender gaps at work and in other arenas, particularly access to education, family planning, motherhood, financial and digital inclusion, as well as support for unpaid caregiving.

In order to make meaningful progress in gender equality, important changes need to be made in the workplace (both through social policy and private initiative), in society, politics and legislation. For example, promoting formal employment, encouraging gender-neutral standards, laws and regulations that preclude discrimination, increasing representation in public institutions and collective representation, as well as ensuring that legislation and business practices enable access to property, training, IT and financial resources. It is critical that support systems be set up that make it possible to share equally the number of hours of unpaid work spent principally on looking after the family and the household. The economic value of this unpaid work is estimated to be as much as USD 10 trillion (13% of the world's entire GDP).

From the business perspective, BBVAMF wants to position itself as the driver of change, to achieve economic and social development, backing gender equality and getting financial access for women, meeting their families' needs and those of their enterprises with its products, as well as with additional services providing financial education and generating networks of contacts.

Over the course of this past year, BBVAMF has taken part in the United Nations Secretary General's high-level panel on women's empowerment and has been acknowledged as a case study by this same panel[13]. The Foundation is also a member of the private sector advisory group to the United Nations13' Sustainable Development Goals Fund, which identifies gender equality as one of its 17 goals.

BBVAMF also attended a number of events about gender equality and women's empowerment in 2016:

- *International Women's Day* organized by the United States Chamber of Commerce in conjunction with United Nations, where it took part in the working group on *The future of financial inclusion with* Citi Foundation, Action Global Investments, JP Morgan Chase and S&P Global. New York, March 2016[14].
- Latin American Regional Consultation of the Secretary General's high-level panel on Women's economic empowerment. Participation in the financial inclusion and digital group. Costa Rica, July 2016[15].

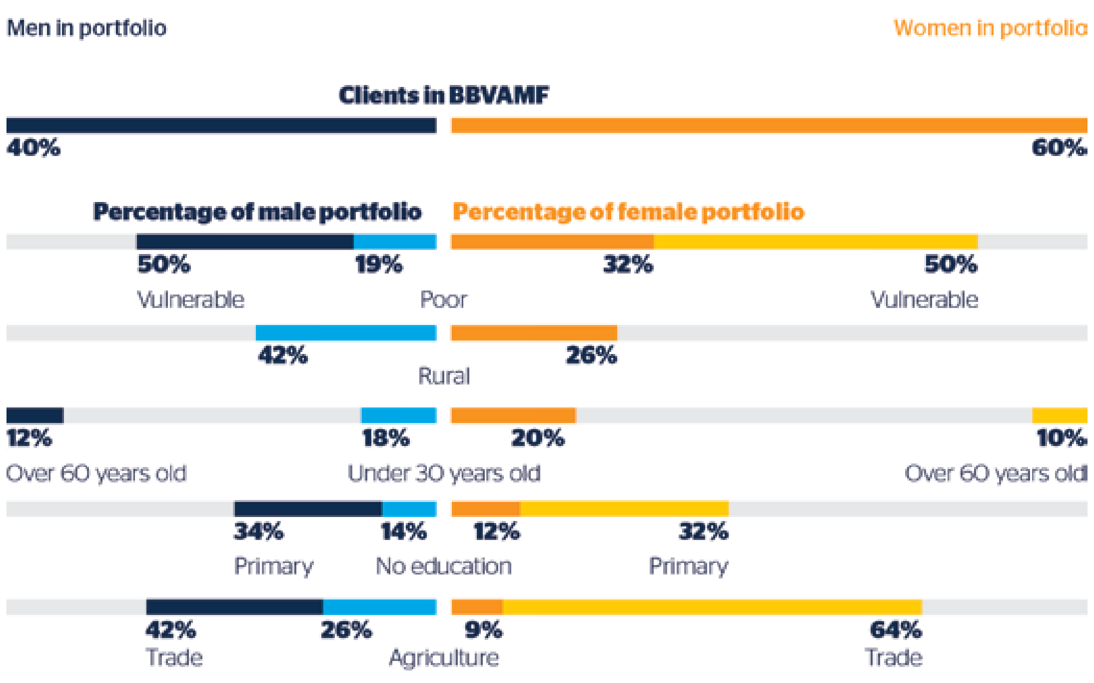
Societies across the world are aware, more than ever before, of the contribution that economic and social policies will make, together with private-sector initiatives, in creating a more sustainable and equal society, as seen from the gender perspective.

2.1 Women we serve by providing credit

The institutions forming BBVAMF use Responsible Productive Finance to serve the most disadvantaged segments, with emphasis on financing programs led by women. They strive to be a catalyst for change in society, reducing gaps, generating opportunities and having an impact on a large number of people so as to achieve progress throughout society as a whole.

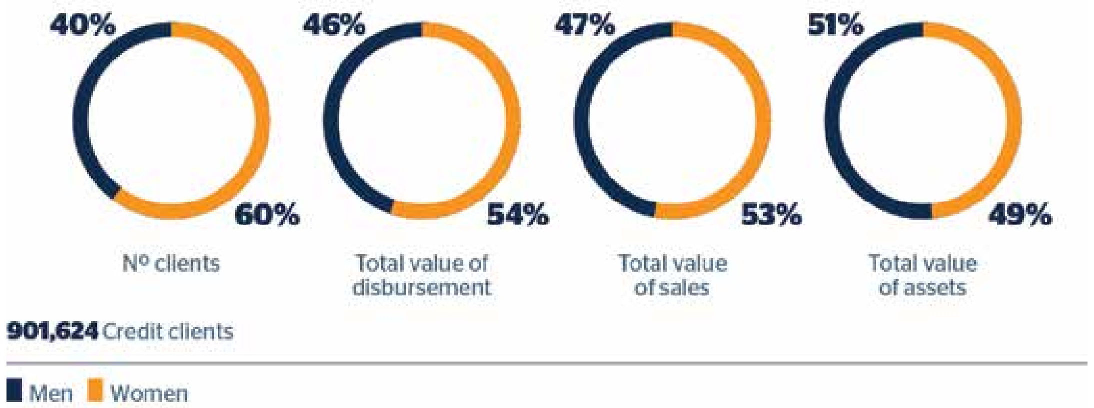
Women account for 60% of group clients overall, and as much as 83% in Fondo Esperanza and 67% in Banco Adopem. They are concentrated in urban surroundings and the most popular sector is *trade*. Taken as a whole, over half our women clients (56%) have secondary education or higher. Although most clients are women, they only account for 54% of the total amount disbursed to the end of 2016[16]. Looking at women's business turnover, their sales account for 53% of the aggregate for all clients17, and for 49% of all client assets[18].

Client features by gender (d)



Source: BBVAMFG institutions. BBVAMF calculations.

Proportion by gender and economic magnitudes (e)



Source: BBVAMFG institutions. BBVAMF calculations.

(d) Percentage of clients by gender and institution. Percentage of client profile by gender. Client current as of 12.31.2016.
(e) Considers clients current as of 12.31.2016 to calculate assets and sales. *Credit value* is the average value of disbursements in 2016.

This difference in the business magnitudes becomes more apparent in average terms. 49% of the asset referred to, in the hands of women, represents average assets of USD 9,621 for men and USD 6,509 for women, 32% less. This difference corroborates the lower investments made by women in their micro-enterprises.

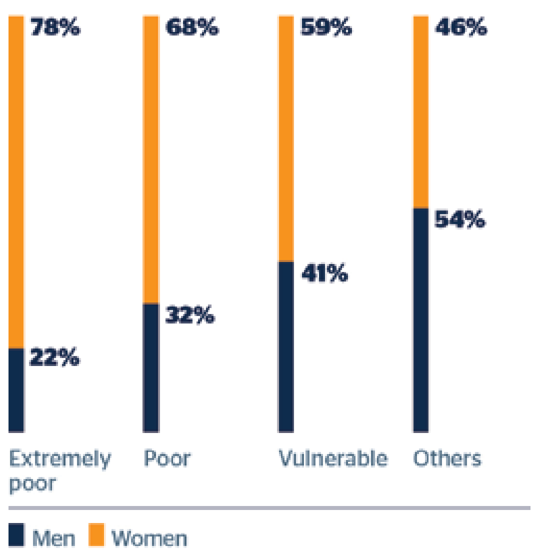
These proportions reflect the greater vulnerability of the women served by BBVAMF compared to men. Specifically, of clients served and classified as *poor* or *extremely poor*, seven out of 10 are women. Men are concentrated in less vulnerable segments, making up 54% of clients classified as *others* and *non-vulnerable*.

As well as greater economic vulnerability, other dimensions have been identified that can also reveal client vulnerability:

- Access to education, as a basic foundation for social mobility and for improving one's economic situation[19].
- Age, particularly that of:
  - Young people, who encounter additional obstacles to finding a job: the difficulty of combining it with their studies or of overcoming hurdles of a social nature, such as those intrinsic to becoming parents at a young age[20].
  - Those over 60, who tend to opt for setting up their own businesses because they lack links to the labor system, with pensions that are insufficient to cover their needs and household costs.
- The environment where the business operates, which conditions both the type of activity and access to basic services (health and education) and financial services.

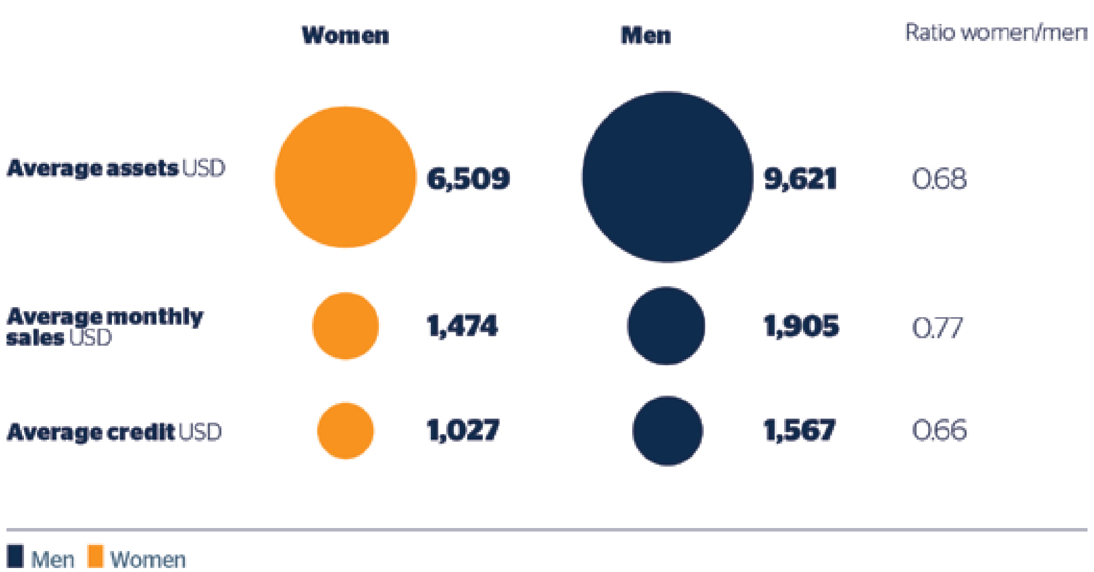
Women are particularly concerned with their families, which drive their efforts, their struggle and their work, so supporting women also means supporting the next generation, making a future with better opportunities and higher standards of living a possibility.

Proportion of women by economic vulnerability segment (g)



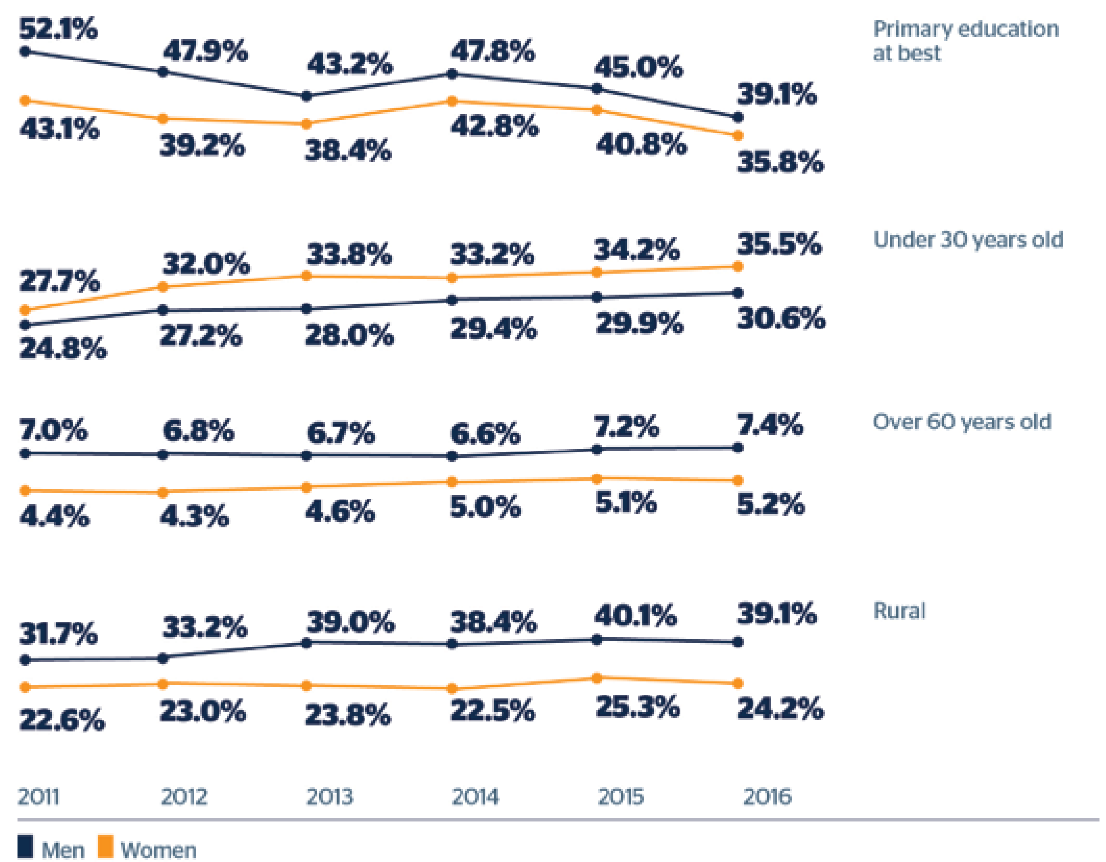
Source: BBVAMFG institutions. BBVAMF calculations.

Economic magnitudes and women/men ratio (f)



Source: BBVAMFG institutions. BBVAMF calculations.

New client profiles by cohort and gender, change (h)



Source: BBVAMFG institutions. BBVAMF calculations.

(f) Portfolio data as of 12.31.2016. Average values are calculated on the current portfolio, except for the average credit, which is averaged out by the number of transactions carried out during the year. Female/male gap takes values between zero and one (one being parity). It is the ratio of the indicator for women against the indicator for men.
(g) Client data as of 12.31.2016. According to each country's official poverty line (differentiating between the rural and urban environments).
Taking the *per capita* net income (estimated from the business surplus divided by the number of occupants in the household), *vulnerable segment* is taken to be that formed of clients whose per capita net income is over the poverty line, but below the threshold obtained by multiplying the figure given for said line by three.

(h) New client (no previous loans) acquisition over the year.

Women account for 60% of Group clients overall, and as much as 83% in Fondo Esperanza and 67% in Banco Adopem. They are concentrated in urban surroundings and the most popular sector is *trade*. 56% have secondary education or higher.

Participation of clients under 30 and over 60 years old has risen among the new clients signed up by Group entities, and educational attainment has been higher in the more recent cohorts, due perhaps to progress in educational policies. Nevertheless, when divided by gender, there is no significant differential trend. The environment of clients served for a year shows how the institutions have made a special effort to penetrate rural areas, although this effort is having more impact on the proportion of men than of women.

2.2 Education as a development factor

Education is an efficient mechanism for improving the situation of vulnerability and access to resources. An analysis of the level of educational attainment of BBVAMF Group clients reveals a positive relationship between the former and the sales generated by their businesses.

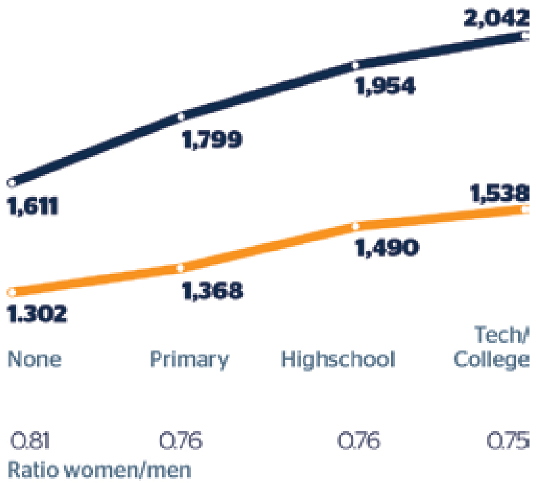
As their educational levels improve, the sales figures of clients of both genders rise; however, among clients with higher educational attainment, the differences between men and women are greater: women's income is 25% less than that of men with the same education (tertiary or technical studies).

As their educational levels improve, the sales figures of clients of both genders rise. Women's income is 25% less than that of men with the same education.

Looking at the *per capita* net income (surplus generated by the business for each household member), the positive relationship between education and wealth generation continues, although the gap between genders is even wider at higher educational levels, rising to 31%. This suggests that female entrepreneurs have households with more members to support, with the average of 3.31 dependents per woman with an education to tertiary or technical level, compared to 3.02 for men at the same educational level. This is another confirmation of how household structure conditions women more and is key in their development.

(i) Client data as of 12.31.2016. Female/male gap: women's average sales, by educational attainment, compared to average sales by men with the same level of education.
(j) Client data as of 12.31.2016. Female/male gap: women's average net incomes, by educational attainment, compared to average sales with the same level of education.

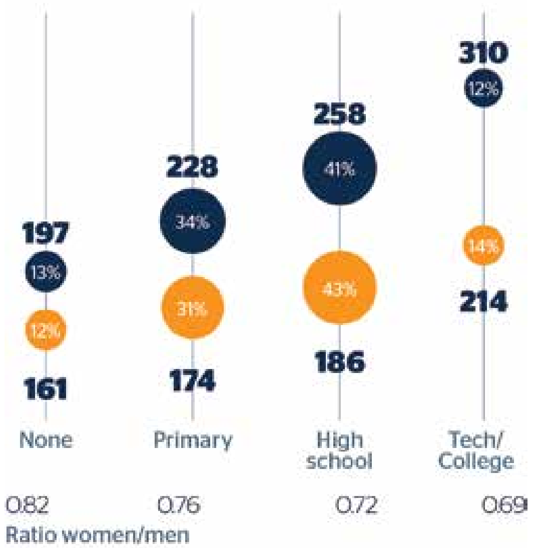
Avg. monthly sales by educational level attained USD (i)



■ Men ■ Women

Source: BBVAMFG institutions. BBVAMF calculations.

Avg. per capita net income by educational level attained USD (and portfolio % by gender) (j)



■ Men ■ Women

Source: BBVAMFG institutions. BBVAMF calculations.

2.3 Women and their businesses

As mentioned above, there are differences between levels of assets, sales, average credits, etc. Some of these inequalities are due to the fact that the sectors in which men and women conduct their businesses are not the same. Clients whom we serve tend to become entrepreneurs out of necessity, because they have fewer options in the labor market, rather than in response to a business opportunity. Women have a higher participation in businesses with lower assets

Women have a higher participation in those businesses with lower assets which therefore need a smaller investment at the outset, as well as fewer technical and/or physical requirements.

Sales margins, and assets by gender (k)

Costs, installment & net income over sales by activity and gender	Costs/sales	Installment payment/sales	Net income/sales	Women clients participation	Average assets (USD) Women	Average assets (USD) Men
Services (men)	49%	14%	37%	55%	8,245	10,583
Services (women)	50%	14%	36%			
Wholesale trade (men)	71%	7%	22%	52%	9,811	11,161
Wholesale trade (women)	66%	8%	26%			
Retail trade (men)	68%	8%	24%	72%	5,623	7,856
Retail trade (women)	64%	10%	26%			
Prod./Transf. (men)	56%	11%	33%	58%	5,004	8,598
Prod./Transf. (women)	52%	13%	35%			
Agriculture (men)	57%	10%	33%	34%	9,241	11,381
Agriculture (women)	56%	10%	34%			

Costs/sales (men) Installment payment/sales (men) Net income/sales (men)
Costs/sales (women) Installment payment/sales (women) Net income/sales (women)

Source: BBVAMFG institutions. BBVAMF calculations.

(k) Costs, payment installment and net income against sales for clients current as of 12.31.2016. Participation of women, ratio of women clients to all sector clients, current as of 12.31.2016.

Profile of women clients working in retail trade (l)

Economic status	34% Poor	51% Vulnerable
Age range	21% Under 30 years old	9% Over 60 years old
Education (max.)	43% Primary	13% Higher ed.
Housing status	71% Owned	7% From a relative

Source: BBVAMFG institutions. BBVAMF calculations.

which therefore need a smaller investment at the outset, as well as fewer technical and/or physical requirements.

So, most of the women served work in *retail trade* (little initial investment and/or asset requirement and higher rotation of the latter). This sector, in which 72% of women who bank with Group entities work, reports a low level of net income over sales (it is less productive) in comparison with other sectors such as *services* or *agriculture*. The latter is where the highest proportion of men work (only 34% of participants are women) and concentrates a high level of assets.

Of clients working in *retail trade*, enterprises led by women accumulate fewer assets (there is a 28% gap) than men's, although on average women are more efficient, with a net income over sales ratio 2% above that of the men. As pointed out in the section on women's situation, women are more productive, so that in the remaining sectors (except for *services*) they also report higher percentages of net income over sales.

The vulnerability level of women in *retail trade* is higher than in other sectors, with 34% of Group clients classified as *poor* or *extremely poor*, compared to 25% in the *services* sector and 32% on average in the entire portfolio of women. These women are relatively younger and with slightly lower education levels. Nearly three out of every four women working in *trade* owns her home.

(l) Data for clients current as of 12.31.2016.

2.4 Business performance

Taken together, for the whole client portfolio, the performance of basic business variables (average monthly sales, average monthly net income and average assets) is positive, both for men and for women, although it shows some differentiation.

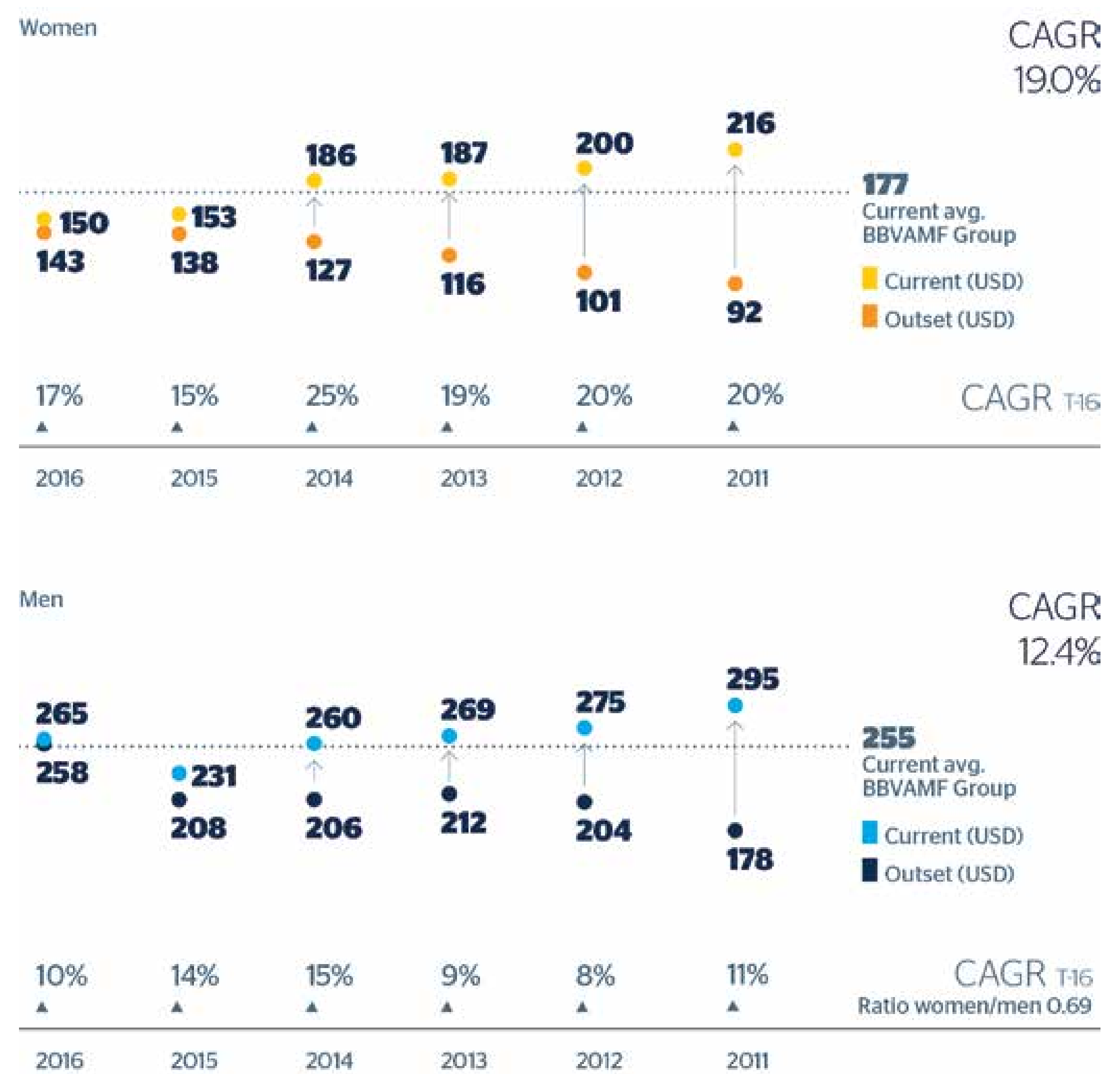
Average monthly sales performance is very solid, with compound annual growth rates of 17.7%, in the case of women's enterprises, and of 16.2%, slightly less, in those run by men. However, the starting point for sales is lower in the case of women and on average there is a gap of 0.78 (women's average sales/men's average sales).

Average monthly sales (by cohort) USD (m)

Source: BBVAMFG institutions. BBVAMF calculations.

(m) Data on sales performance of clients current as of 12.31.2016, and who have received a disbursement in the previous 12 months. Their situation at the outset is shown (data in their cohort year) and the current situation (at the last update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Average monthly net incomes (by cohort) USD (n)



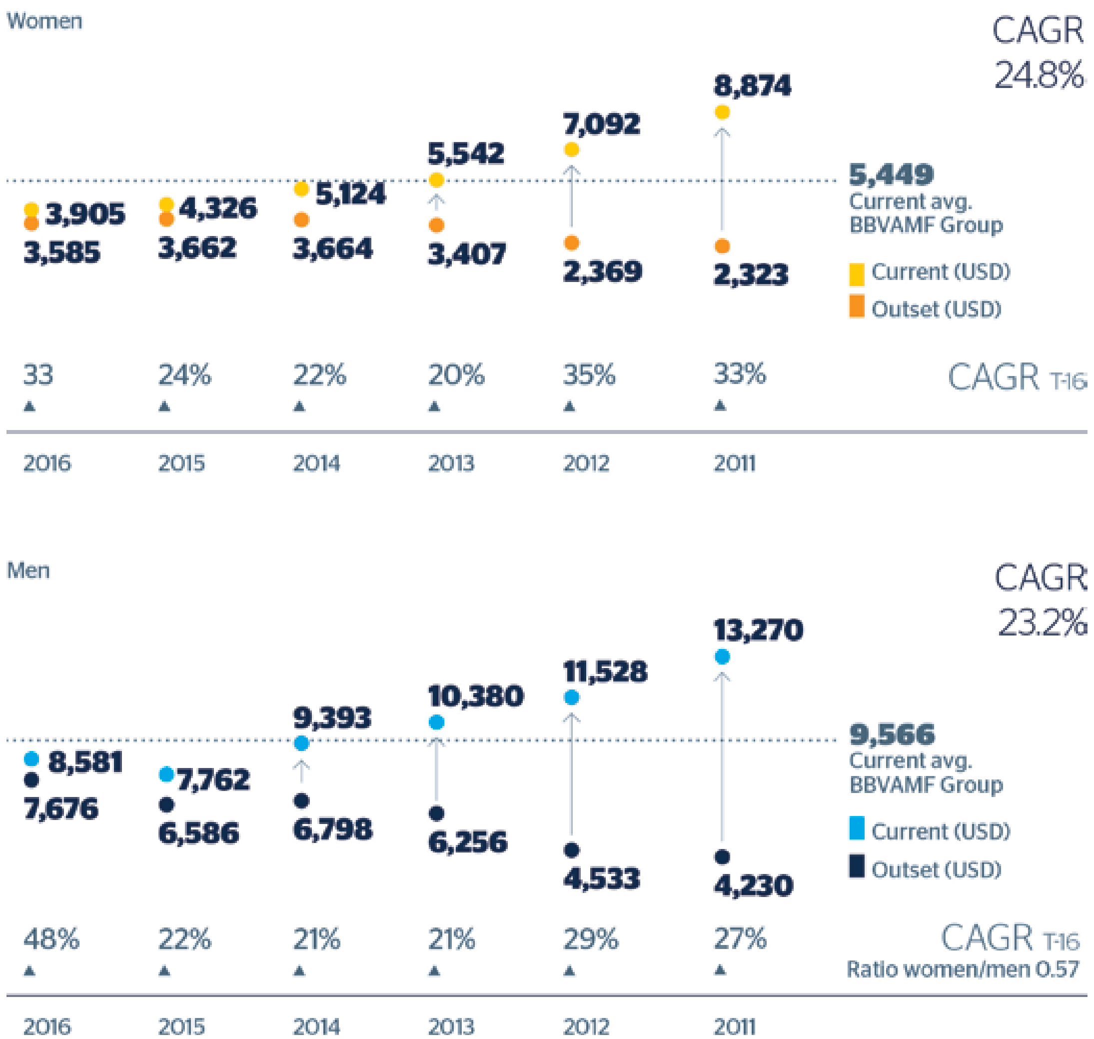
Source: BBVAMFG institutions. BBVAMF calculations.

(n) Data on net income performance of clients current as of 12.31.2016, who have received a disbursement in the previous 12 months. Their situation at the outset is shown (data in their cohort year) and the current situation (at the last update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

Turning to the performance of average monthly net income, women's compound annual growth rate is 19%, 6.6% higher than the men. Even though women's initial net income is 31% less than that of men, the faster net income growth in businesses led by women is shortening the gap between them and the men.

In terms of assets, growth rates are higher here, although the differences between men and women are also higher. Women's average initial business assets are nearly half those of men (a ratio of 0.57). The growth rate for men's assets is faster in the short term *(seen in the 2016 cohort)*, expanding much faster than assets in the hands

Average assets (by cohort) USD (o)



Source: BBVAMFG institutions. BBVAMF calculations.

(o) Data on average asset performance of clients current as of 12.31.2016, who have received a disbursement in the previous 12 months. Their situation at the outset is shown (data in their cohort year) and the current situation (at the last update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.

of women in the first few months, but it soon levels off and, by the end, growth rates are lower than those of women. Thus women's compound annual growth rate is 24.8%, against that of men, which is 23.2%, thus narrowing the gender gap over the long term. Women entrepreneurs invest less in their enterprises, but their greater stability and risk aversion reduces the gap in the longer term.

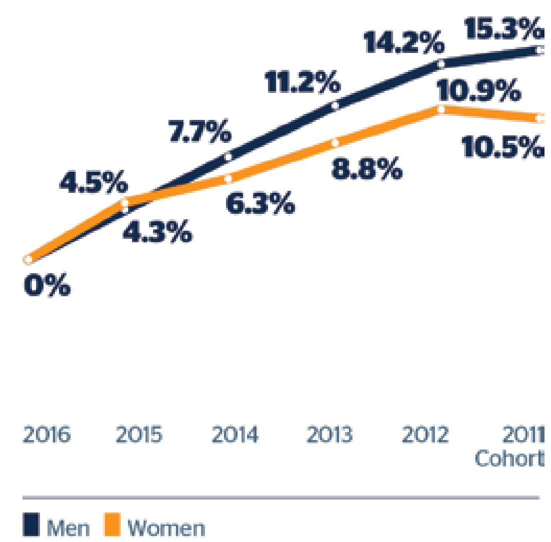
Men's businesses increase their employee numbers more frequently than women's. On the strength of this, a possible interpretation is that men re-invest more in business growth than women.

We can see how our female clients make their businesses grow, although these do not become as large as businesses led by men. With respect to *per capita* net income performance (the sum generated by the business per household member) women achieve a level of growth in their net incomes that enables them to overcome *extreme poverty* after three loans and cross the poverty line from *poor* to *vulnerable* after just one.

Women clients' average net incomes grow steadily in every cycle and at all levels of vulnerability, with the fastest growth in the first cycles, which thus show a steeper curve.

Faster growth of net incomes in businesses led by women is narrowing the gender gap with men.

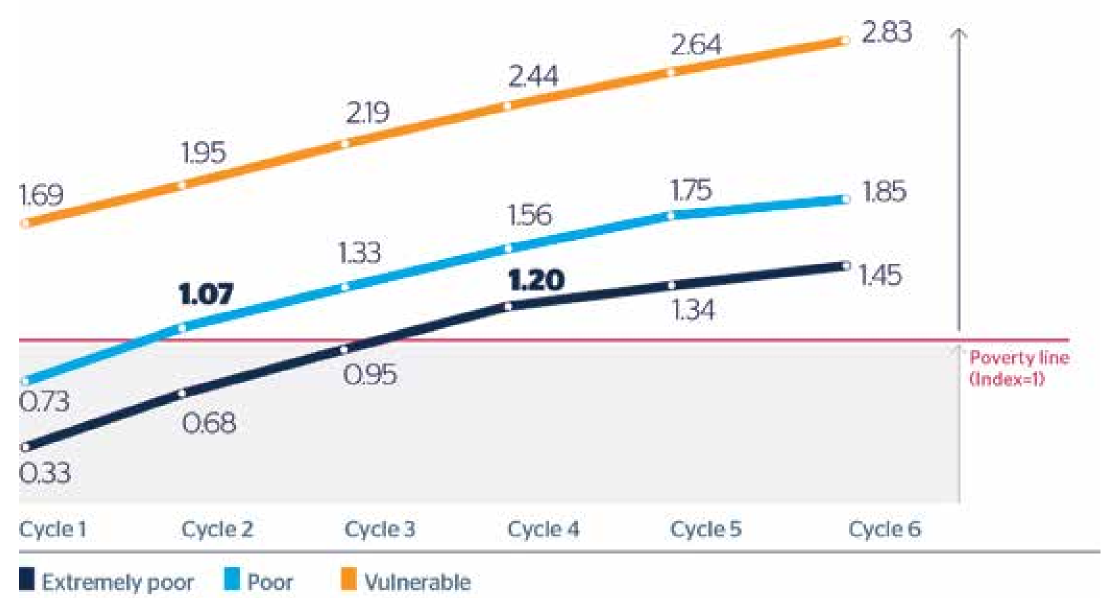
Job creation, by gender
(% of the cohort) (p)



Source: BBVAMFG institutions. BBVAMF calculations.

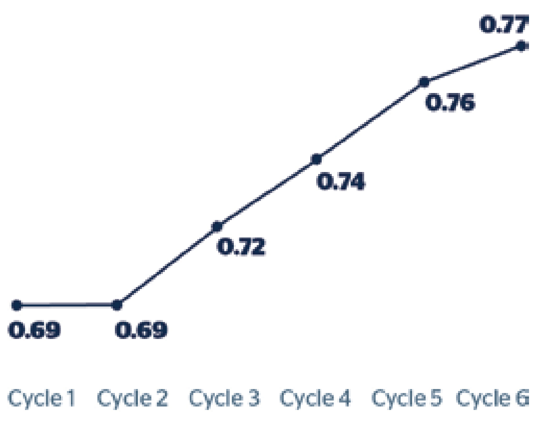
(p) Measures the increase in the number of business employees against the situation at the outset, for clients current as of 12.31.2016 by each cohort. Shows averages from the 2011-2016 cohorts. Data aggregated from all institutions, except Bancamía. Fondo Esperanza' information covers 2013-2016, Financiera Confianza covers 2014-2016.
(q) For the sample of clients served between 2011 and 2016, classified according to the situation at the outset on the first disbursement. Shows the change in *per capita* net income in each disbursement cycle, relative to each country's official poverty line (by rural/urban environment and year of disbursement). The relative *per capita* net income takes the value of one when it is equal to the poverty line.

Women's per capita net income relative to the poverty line (q)



Source: BBVAMFG institutions. BBVAMF calculations.

Women/men ratio relative income performance by each disbursement cycle (r)



Source: BBVAMFG institutions. BBVAMF calculations.

(r) For the sample of clients served between 2011 and 2016, showing the ratio of women's *per capita* net income relative to that of men for each cycle. *Individual portfolio* is the entire BBVAMF portfolio except for the Fondo Esperanza portfolio, Financiera Confianza's *Palabra de Mujer* and Banco Adopem's *Crédito Solidario*, which make up the group portfolio.

(s) 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.

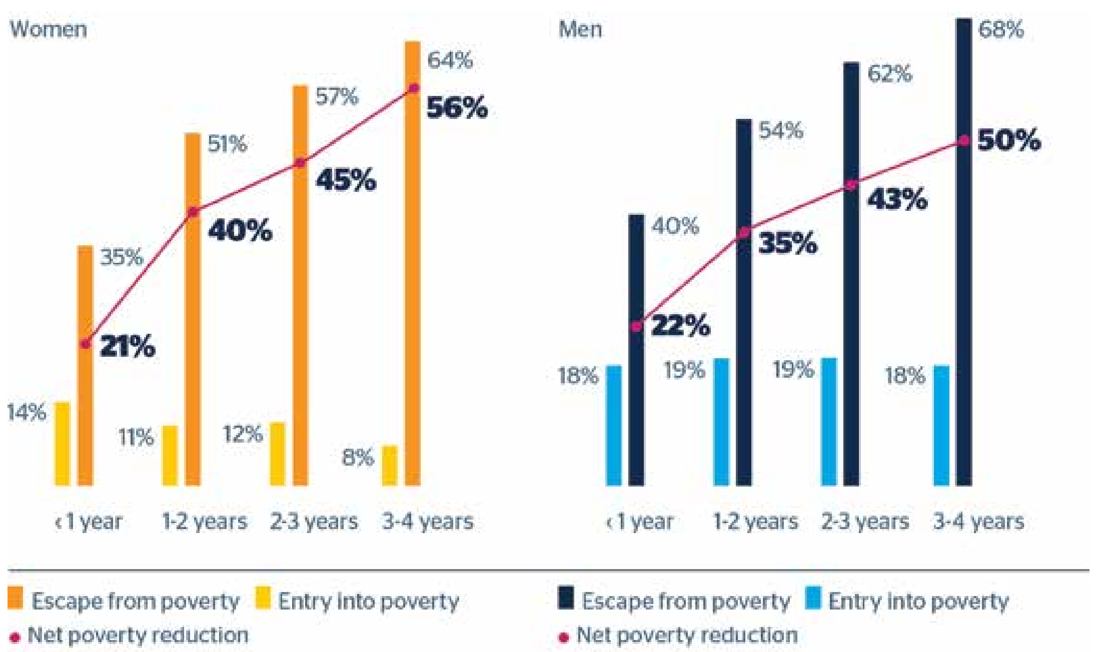
- Escape from poverty: clients classified as poor at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as poor at the outset.
- Entry into poverty: clients classified as non-poor at the outset of their relationship 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.

As time passes and there are new disbursements, women's *per capita* net incomes come closer to those of men, moving from an initial gap of 0.69 to 0.77 over five credits; in other words women's *per capita* net incomes after five cycles are on average 33% lower than those of men. Financial services appear to be helping to reduce the economic gaps between men and women in the medium and long term. The first cycles show the greatest growth, both for men and for women, but the reduction in the gap is lower.

Climbing up over the poverty line

There is a somewhat larger reduction in the client segment classified as *poor* at the outset for women as a whole. After two years with the institution, the reduction is 40%, compared to 35% for men.

Reduction of the poverty segment (s)



Source: BBVAMFG institutions. BBVAMF calculations.

After two years the number of women in the poverty segment falls by 40%. Of clients who overcame poverty in 2016, 69% are women.

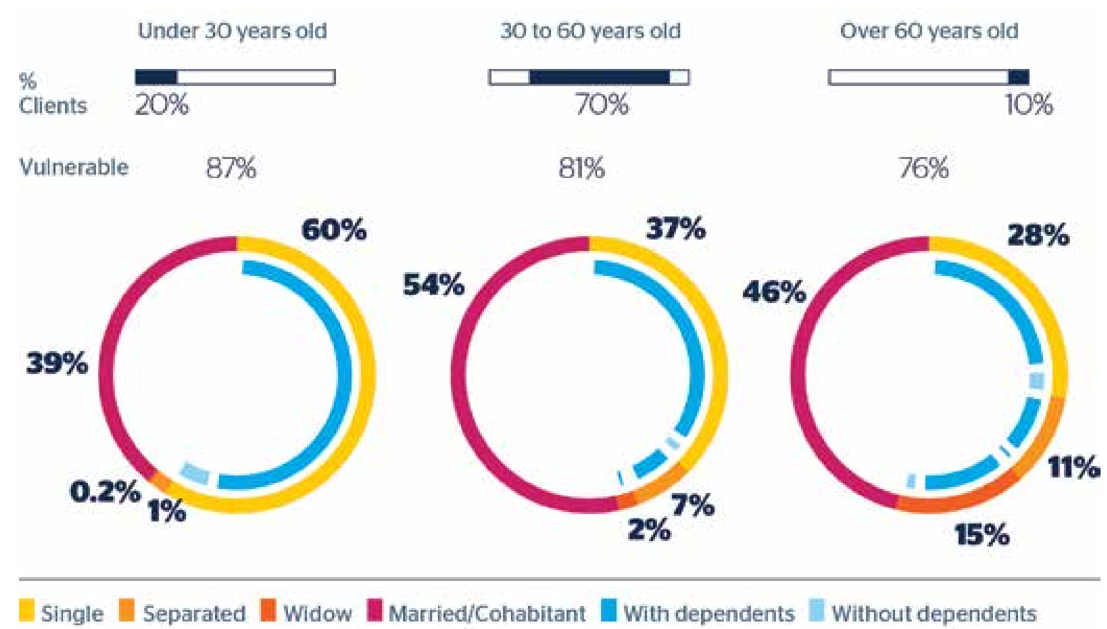
The reduction over time in the client segment classified as *poor* is similar for men and women. However, the percentage of entrepreneurs who were not *poor* at the outset, but whose situation has worsened over time (those who fall into poverty) is much higher for men. The percentage of men classified as *poor* at the outset, who climb out of poverty is also higher, which suggests greater income volatility among men than among women. Of the 56,427 clients who climbed over the poverty line in 2016, 69% (38.962) are women.

3. Staying with women throughout their lives

According to poverty figures[21] by ages, childhood is the most critical period, and in Latin America 42% of children are poor. This affects boys and girls equally; it is not until puberty that the economic inequalities between genders begin to appear. For this reason, the decision to have children and the structure of households are relevant factors in economic capacity.

Furthermore, the fact of having domestic responsibilities is even more of a determining factor in monetary capacity if the parent is very young and the family mono-parental. The household structure of our female clients is analyzed below, by age, civil status and the number of members in the family unit.

Our clients' household structure (t)



Source: BBVAMFG institutions. BBVAMF calculations.

(t) Percentages for the female portfolio as of 12.31.2016. "Single/ separated/widow with family dependents" covers those women clients whose household contains more than one person; "without family dependents" covers the rest.

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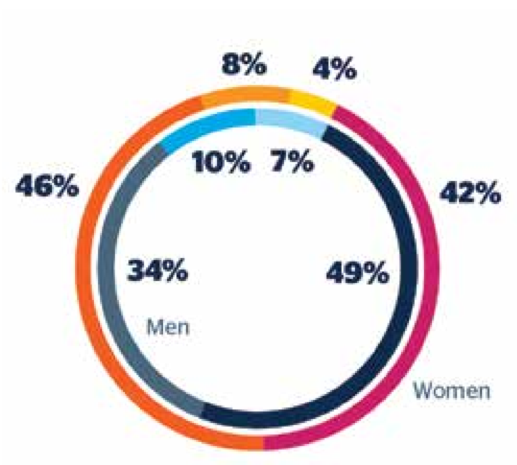
Empowering women

If one studies the Group's women clients by age, we see different family structures over the different life stages. In the group of the youngest clients, six out of 10 are single, and five of these six have dependents. In the adult phase, most of the women (54%) live with, or are married to, someone, and 46% are heads of their household, whether because they are single, separated or widows. The increase in the proportion of widows and separated women leads to a situation in which, in the group of women over 60, once again they are more frequently supporting the family on their own (54% of women). Furthermore, we see how one-parent families with dependents are more common than those without dependents, so a connection between this factor and entrepreneurship is established.

Half of households in the female portfolio are administered solely by the client, and 46% are women on their own with dependents. This represents major challenges when defining products and services to meet their needs and promote their business growth and improved welfare. Although to a lesser degree, the percentage of male clients who manage their household on their own (41% of them) is also significant.

The fact of taking on family responsibilities also conditions the level of education reached by women and, as such, affects their future development, both their own and that of their family.

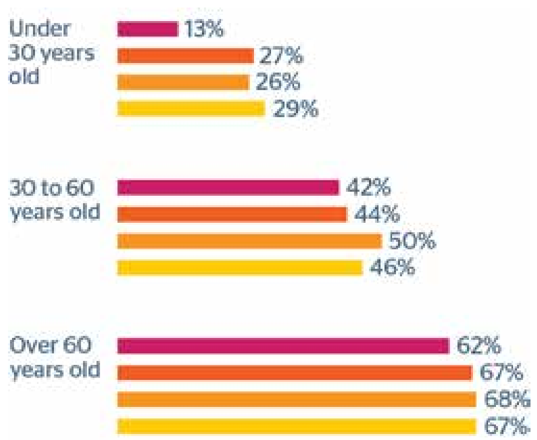
Clients by civil status, household structure & gender (u)



Married/Cohabitant + dependent
Single/separated/widow + dependent
Married/ Cohabitant + without dependent
Single/separated/widow + without dependent

Source: BVAMFG institutions. Calculations: BBVAMF.

Women clients with primary education at best (v)



Single/separated/widow + without dependent
Single/separated/widow + dependent
Married/ Cohabitant + without dependent
Married/ Cohabitant + dependent

Source: BBVAMFG institutions. BBVAMF calculations.

(u) Civil status of women clients as of 12.31.2016, according to information from their latest disbursement. "Single/separated/widow + dependents" if the household contains more than one person; "married/in union with + dependents" if the household contains more than two people.
(v) Clients current as of 12.31.2016. Percentage of women by civil status and dependents, with primary education at best. Single/separated/widow + dependents" if the household contains more than one person; "married/in union with + dependents" if the household contains more than two people.

There are two important features in the client portfolio: greater access to education among the younger generations, and the correlation between their household composition and their educational and training decisions. Excluding the first feature as exogenous, two conclusions can be drawn from an analysis of household characteristics: women who live in union stop studying earlier, perhaps because of greater dependence on the couple. The second conclusion concerns people with family dependents; having domestic responsibilities seems to push women into leaving their studies in order to earn their own income. This is more noticeable in younger generations (under 30 years old). Among women over 60, education levels are so low that there are hardly any differences.

Lower educational levels among the over 60s, together with insufficient pension systems (those countries with lower state support systems have more entrepreneurs among their older population) and heavy family duties push men and women to start a business and to continue working after they are 60 years old. Lower educational levels also condition their activities, and they work more in *agriculture* and activities with lower training requirements.

Economic inequalities between genders appear at childbearing years. For this reason, the decision to have children and the structure of households are both relevant factors of economic capacity.

4. Women in the rural environment

According to the FAO, women who live in rural environments are responsible for more than half the production of food and perform a crucial role in food security and in conserving biodiversity. Despite this, worldwide, they only possess 30% of the land, take out 10% of the loans and receive 5% of the technical assistance.

Women in the rural environment not only live in the reality described at length in this chapter, but their surroundings condition their likelihood of getting good quality jobs. The roles of women in rural areas are more rigidly defined than in town, so they have been more restricted to domestic tasks (they spend more time on unpaid work than those in the urban environment), unqualified jobs and those requiring less physical effort. These rural women make up 43% of the agricultural workforce in developing countries. However, only a minority has their own land and/or performs a job with decision-making power in organizations or local government[22].

The barriers that women outside the major urban centers have to overcome are many: economic and financial obstacles to education, particularly in remote areas; legislative hurdles (guaranteeing equal rights to property); little access to sexual and reproductive health services (lack of access to medicines and basic products, no family planning measures); and no way to improve their skills because of the lack of access to agricultural extension services, technology, vocational training and financial loans.

26% of our women clients live in the country and they are younger than those in the urban environment, since their reduced access to education, greater unemployment and more youth pregnancies in these areas create the conditions for women to become entrepreneurs sooner in order to support themselves. As has been noted above, one of the factors behind entrepreneurship in rural areas is the lower level of education than in urban centers.

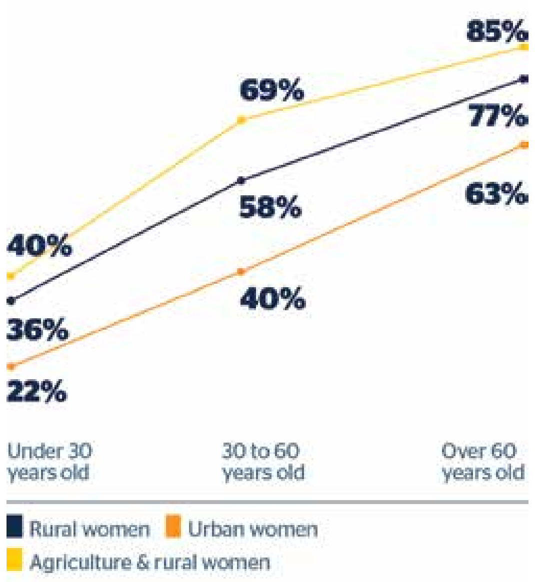
Low levels of education condition access to good quality jobs and technical training, so becoming an entrepreneur may be the only way of making a living. Women (and men) with less training are to be found in the *agricultural* sector.

In BBVAMF, rural clients make up 32% of the whole portfolio, of whom 49% are women; however, women account for 46% of all the credit and take out loans that on average are 29% smaller than men's.

The number of women clients in rural areas is much lower (49%) proportionately than in the urban environment (66%); this shows that it is more difficult to be a female entrepreneur and sign up for a loan in the rural environment. However, the differences between men and women in rural areas are less pronounced than in the cities, with higher female/male ratios for all economic magnitudes.

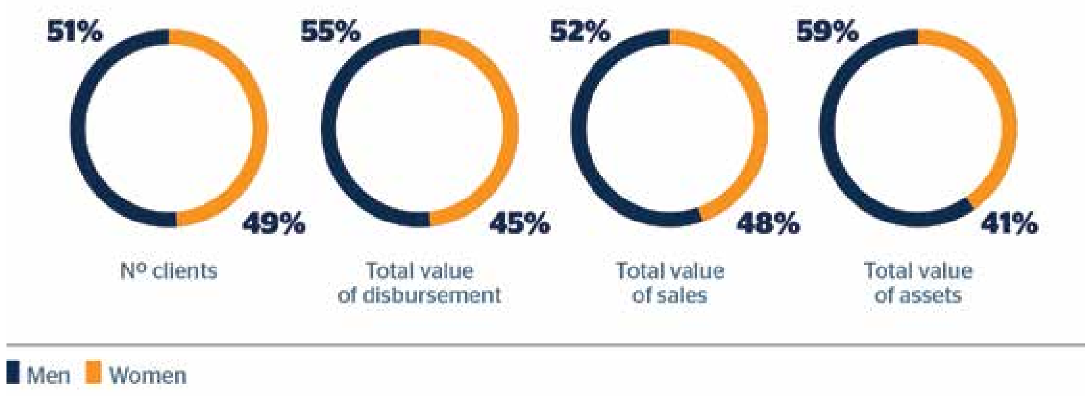
(w) Proportion of clients compared to all women clients current as of 31.12.16, by environment, age and education.
(x) Considers clients current as of 12.31.2016 in the rural environment, for the calculation of assets and sales. *Value of the credit* is the average value of disbursements to clients in the rural environment in 2016.

Women with primary education at best (w)



Source: BBVAMFG institutions. BBVAMF calculations.

Clients in the rural environment. Representation & key economic attributes by gender (x)



Source: BBVAMFG institutions. BBVAMF calculations.

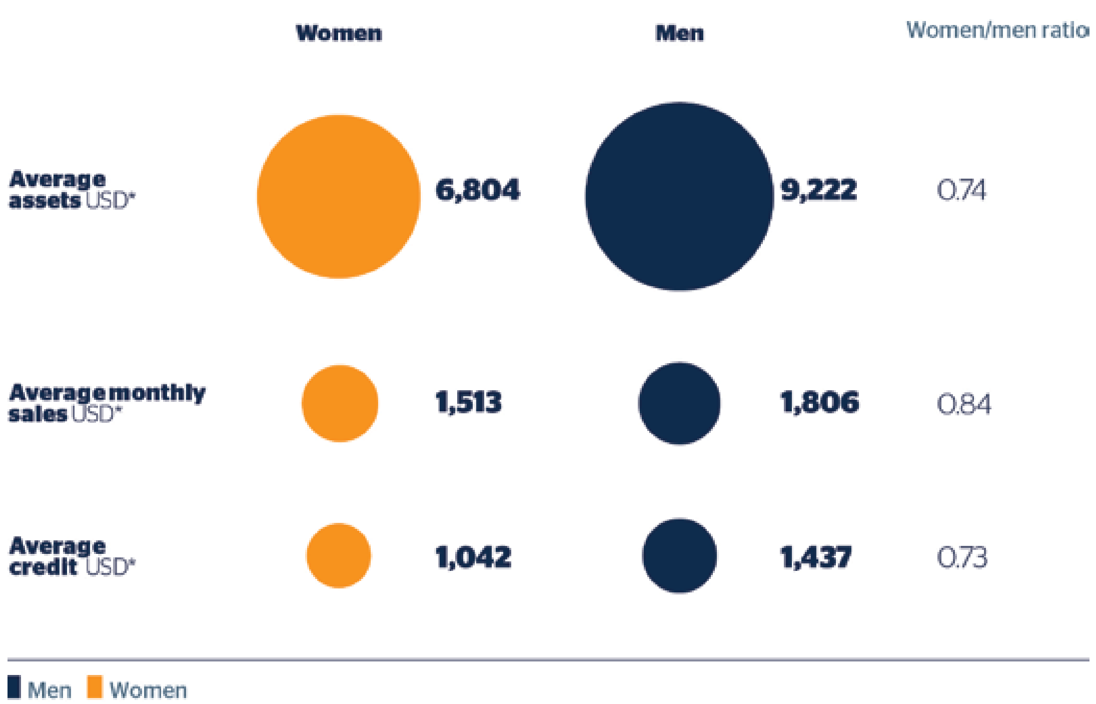
Economic differences between men and women in rural areas are smaller than in the urban environment.

Although in economic terms the inequalities are lower, it is in the rural environment where we see the biggest differences between activities carried out by men and women. Lack of access to land title and to productive resources leads women to focus on sectors other than *farming*, principally *trade*. Men in the rural environment, meanwhile, work mainly in *farming* activities (except in the Dominican Republic where the *farming* sector is a small one).

In all the regions where BBVAMF has a footprint, in the rural environment more men farm than women. Women have the highest representation in the *agricultural* sector in Bancamía and Microserfin. In those cases where women work in this sector, it tends to be in support activities or as employees, so farming enterprises run by women, according to the figures, are unusual.

In the rural environment, after two years with the bank the segment of rural women clients classified as *poor* or *extremely poor* falls by 36%.

Clients in the rural environment. Economic magnitudes and women/men ratio (y)

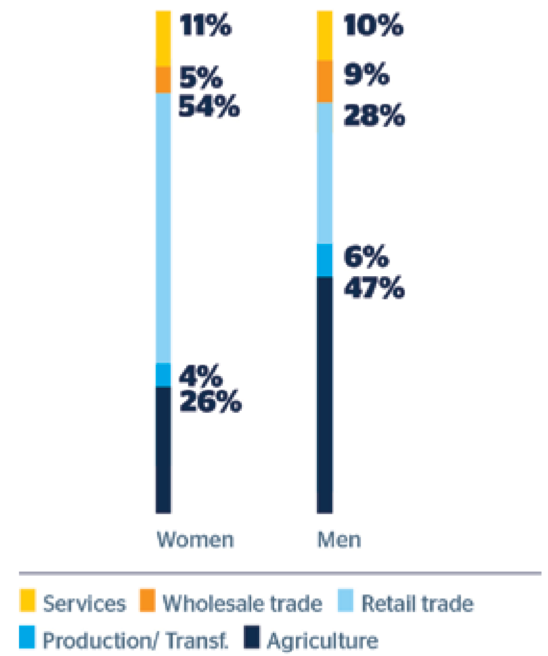


*The size of the circle represents the size of the indicator
Source: BBVAMFG institutions. BBVAMF calculations.

(y) Considers clients current as of 12.31.2016 in the rural environment, for the calculation of assets and sales. *Average credit* is the average value of disbursements to clients in the rural environment in 2016.

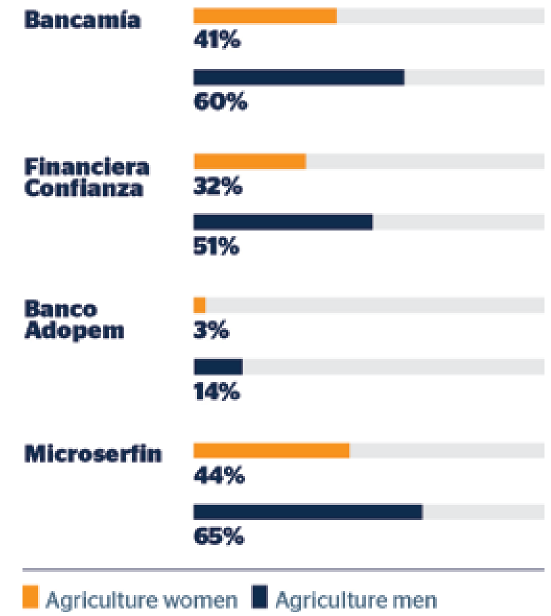
(z) Activity sectors reported in the latest update or disbursement of clients in rural environments current as of 12.31.2016.
(aa) Percentage of rural women and men working in agricultural activities who are our institutions' clients, current as of 12.31.2016.
(bb) Clients who have been current at some 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.

Clients in the rural environment and theirs activity sectors (z)



Source: BBVAMFG institutions. BBVAMF calculations.

Clients in the rural environment. Percentage of women involved in farming activities (aa)



Source: BBVAMFG institutions. BBVAMF calculations.

Rural clients. Reduction in poverty segment (bb)

Source: BBVAMFG institutions. BBVAMF calculations.

Rural women are responsible for more than half of all food production. Despite this, worldwide, they only possess 30% of the land, take out 10% of the loans and receive 5% of the technical assistance.

Women in the rural environment in Bancamía

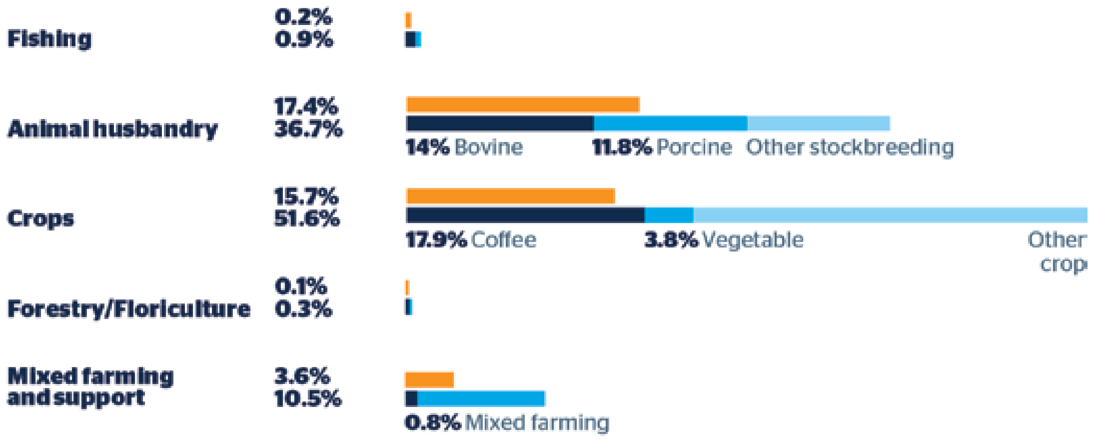
Bancamía is one of the entities with the best performance in the rural environment. Its product specialization and sales network enable it to serve over 140,000 clients in rural areas (44% of its credit clients).

In rural areas there is a major concentration of activities inherent to the *agricultural* sector: one in every two clients works in an associated activity. Practically half of this rural population is made up of women (46%), and of these, 41% have an agricultural business. As the FAO points out, women's dedication to farming activities is critical for poverty eradication and food security.

Bancamía's rural clients mainly work in *agriculture*, particularly coffee growing, an activity with high net margins.

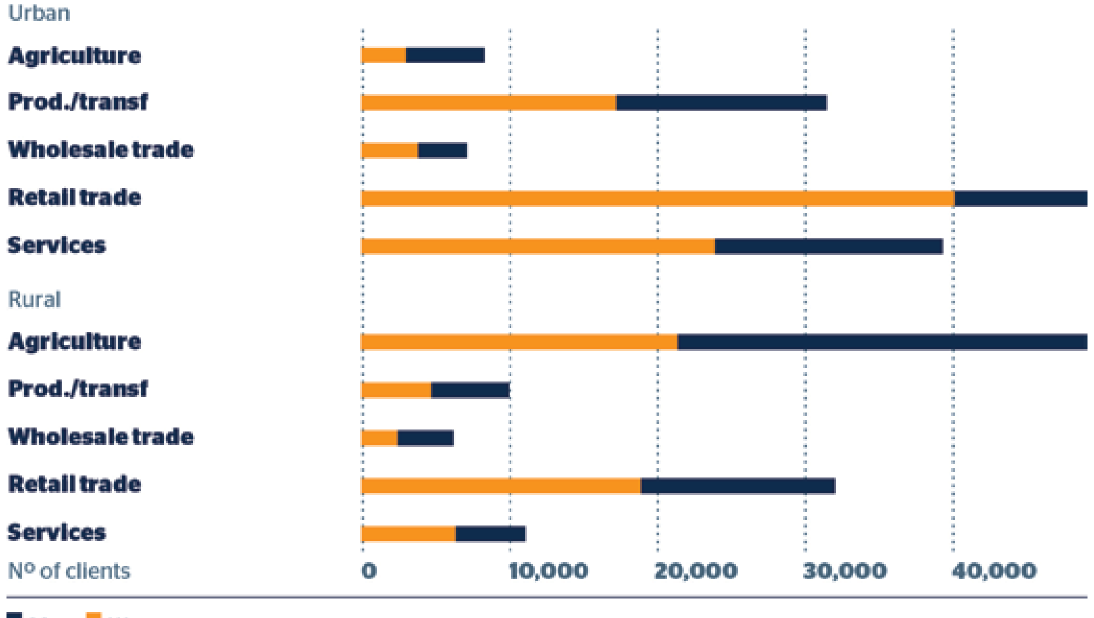
Within the *agricultural* sector in the countryside, men and women specialize in different activities. Bancamía's rural agriculture portfolio contains five main types of activity: crops (35% of clients in this group grow coffee), stockbreeding (of which 38% raise cattle and 32% breed pigs), mixed and support activities, forestry and woodland activities and fishing.

Bancamía. Agriculture in the rural environment segments (dd)



Source: Bancamía. BBVAMF calculations.

Bancamía. Distribution by activity and by environment (cc)



Source: Bancamía. BBVAMF calculations.

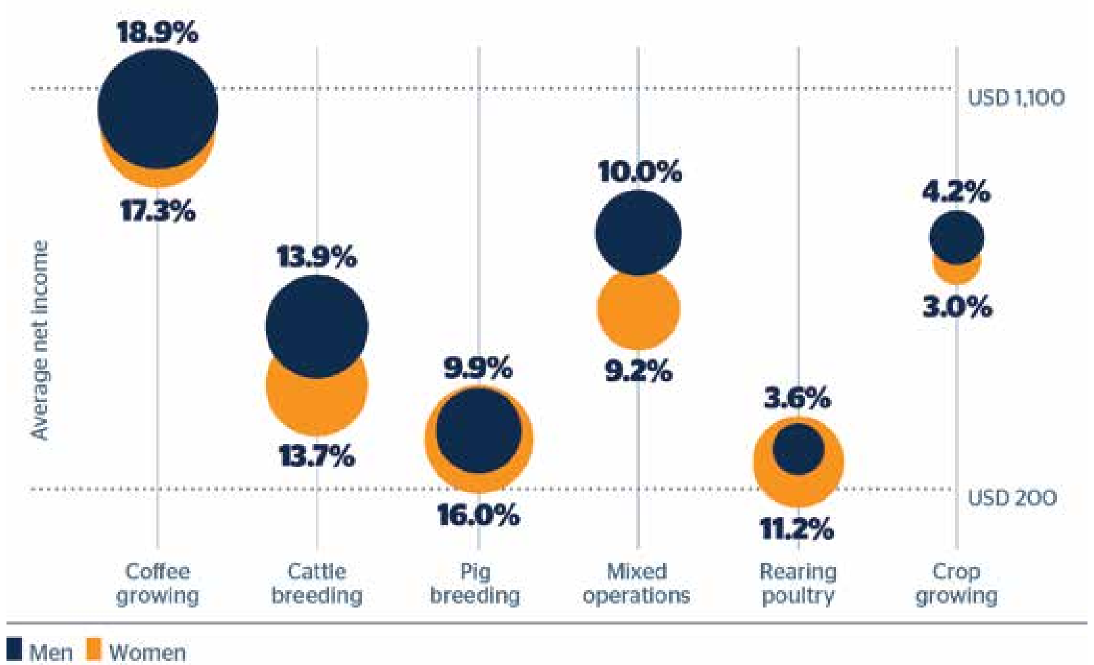
(cc) Data on current clients reported as of 12.31.2016.
(dd) Data on current clients reported as of 12.31.2016.

Although in general terms women's presence in *agriculture* is a minority one, there is a series of activities in which women play a key part. Bancamía's female credit clients in the *agricultural* sector in the rural environment mainly work growing crops and in stockbreeding (9% of them in mixed operations), whereas the number of women in forestry, fishing, and agricultural support is residual. The most frequent activity among rural women involved in *agriculture* is coffee growing (17%). In stockbreeding they are mainly concentrated in pig breeding (16% of the female portfolio); cattle breeding (14%) and rearing poultry (11% of rural woman in *agriculture*).

Crop-based activities bring in larger net incomes than stockbreeding. Rice growing (insignificant, less than 1% of the portfolio) and coffee growing (18% of all farming clients) generate the highest net incomes (167% higher than the average weighted net income for all farming activities in the rural environment; and where net incomes in businesses run by women are 4% lower than those managed by men).

Cattle breeding, a sub-division of stockbreeding, generates lower net incomes than agricultural activities as a whole, and women's net incomes are 6% below that of men. Net incomes from pig breeding are slightly lower than in cattle breeding, and the gap between men and women widens; women's net incomes are 24% lower than those of men.

Bancamía. Average net business income from principal activities (proportion of clients engaged in each activity) (ee)



*Each circle represents the proportion of agricultural clients by gender.
Source: Bancamia. BBVAMF calculations.

(ee) Data on current Bancamía agricultural clients reported as of 12.31.2016.

Conclusion

Serving the vulnerable population means primarily serving women. Their businesses require lower investments (32% lower assets), but report greater efficiencies and growth rates than men's businesses. Female clients of the Group's institutions are, to a high degree, women on their own with families to support (45%) and they do this working mainly in *retail trade*, including in rural areas (where farming enterprises are on the whole led by men). These enterprises not only improve women's situation of vulnerability, but also narrow the economic gap with men. 68% of the clients who pushed up over the poverty line in 2016 were women.

In their clearly defined mission to generate opportunities for less advantaged people, BBVAMF supports women as they develop their enterprises, providing financial services *(see Palabra de mujer [Woman's Word])*, financial education for their empowerment *(see Escuela de Emprendimiento [School for Entrepreneurs])* and creating networks, staying with them over the different stages of their lives. The outcomes of these activities are economic progress and improved living standards for our women clients, their families and communities, reducing the differences between men and women.

Meanwhile, as part of its institutional function, BBVAMF is working to raise women's visibility and to support international institutions that are pushing to achieve the 2030 Sustainable Development Goals. ■

Notes (1) PovcalNet: Poverty measurement developed by the World Bank's Research Group. A poverty line of USD 3.1 in purchasing power parity is used for all regions. Data to 2013. (2) Idem with a poverty line of USD 1.9 in purchasing power parity for all regions. (3) UN Women. (4) Remaining data in this section are from CEPALSTAT, BBVAMF calculations. (5) *The Global Gender Gap Report WEF*. (6) Calculations using ILO data. (7) Cepal: *Changes in family structures in Latin America*. (8) ILO: *Women at work. Trends 2016*. (9) Constructed from World Bank and CAF data. (10) All data in this section are from Global Findex, with 2014 data from World Bank. (11) *Women, Business and the Law 2016*, World Bank. (12) McKinsey, *The power of parity*, 2015 (13) http://www.womenseconomicempowerment.org/assets/reports/country/Responsible%20Productive%20Finance_BBVA.pdf. (14) https://www.uschamberfoundation.org/event/international-womens-day-forum-2016. (15) http://mfbbva.org/en/naciones-unidas-invita-a-la-fundacion-microfinanzas-bbva-al-panel-de-alto-nivel-sobre-empoderamiento-economico-de-la-mujer-en-america-latina/ (16) Credit measured as the average disbursement made in 2016. (17) Total value of sales as the sum of the last average monthly sales figure, clients current as of 12.31.2016. (18) Total value of assets as the sum of the latest value for total business assets recorded by clients current as of 12.31.2016. (19) Between 2000 and 2014, the gross rate of tertiary education fees has risen from 22.3% to 44.5% (in the case of women, from 24.1% to 50.2% and of men, from 10.6% to 38.9%). CEPAL, data obtained from the preparatory meeting for the IberoAmerican Business Forum. (20) The adolescent fertility rate (births per 1,000 women between 15 and 19 years old) is 81.1 in Panama, 51.9 in Chile, 96.2 in Dominican Republic, 67 in Peru and 85 in Colombia. *The Global Gender Gap Report 2015*, World Economic Forum. (21) Stands at 42% in Latin America. Cepal 2015. (22) UN Women.

BBVAMF
Empowering women

The impact of financing vulnerable woman and men

BBVAMF has a clearly defined mission to generate opportunities and reduce inequalities. Financing aimed at women contributes to eliminating barriers and imbalances, generating positive and sustained impacts for families and driving integrated economic and social development.

Women

USD 8,000

4 have incomes below the poverty line

39%
Women clients classified as poor or extremely poor as % of total vulnerable women clients as of 12.31.2016

1.6 women, after two years with us, escape poverty

40%
% of poor women who break through the poverty line

Impacting on the lives of another **5.6** people

3.6
Average household size of women under the poverty line

Men

USD 8,000

2.2 would have incomes under the poverty line

28%
Male clients classified as poor or extremely poor as % of total vulnerable clients as of 12.31.2016

0.8 men, after two years with us, escape poverty

35%
% of poor men who break through the poverty line

Impacting on the lives of another **2.7** people

3.5
Average household size of men under the poverty line

BBVAMF
Aggregate data

As of December 31, 2016

		COP /USD	PEN/USD	DOP/USD	CLP /USD	CLP /USD	PAB/USD
Exchange rate as of December 31, 2016		0.0003331	0.2985252	0.0215848	0.0014989	0.0014989	1.0000000

Activity summary	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Financial data							
Gross loan portfolio (USD)	1,082,485,050	380,562,145	467,940,439	128,577,386	64,668,275	15,213,664	25,523,141
Amount disbursed in 2016 (USD)	1,300,373,669	325,768,413	593,969,100	146,935,016	196,807,915	15,555,474	21,337,742
Number of disbursements in 2016	1,062,325	256,520	301,111	208,368	270,150	11,690	14,486
Average disbursement in 2016 (USD)	1,224	1,270	1,973	705	729	1,331	1,473
Deposits & others (USD)	562,159,033	183,675,808	322,437,594	56,045,631			
Operating data							
Nº of employees	8,038	3,542	2,137	1,393	560	163	243
Nº of offices	507	199	149	74	53	21	11
People receiving financial education	353,868	160,382	54,549	28,801	110,136		

Our clients	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Net number of clients	**1,826,607**	**828,499**	**468,902**	**390,199**	**110,817**	**11,106**	**17,084**
Number of credit clients	**901,624**	**325,712**	**212,134**	**224,771**	**110,817**	**11,106**	**17,084**
As a % of all BBVAMF Group credit clients		36.1%	23.5%	24.9%	12.3%	1.2%	1.9%
Number of savings clients	**1,562,132**	**785,472**	**395,975**	**380,685**			
As a % of all BBVAMF Group savings clients		50.3%	25.3%	24.4%			
Vulnerability level of credit clients (% clients)							
Extremely poor	7.1%	6.0%	2.9%	4.3%	30.3%	1.1%	3.9%
Poor	19.6%	19.2%	15.4%	24.1%	20.0%	5.6%	14.9%
Vulnerable	49.7%	45.8%	51.1%	59.0%	36.3%	51.6%	51.9%
Total vulnerable	**76.4%**	**71.0%**	**69.5%**	**87.4%**	**86.6%**	**58.3%**	**70.7%**
Others	23.6%	29.0%	30.5%	12.6%	13.4%	41.7%	29.3%
Other credit client segments (% clients)							
Rural	32.4%	43.6%	24.7%	38.9%		33.5%	38.2%
Women	60.2%	55.3%	50.5%	66.9%	82.8%	58.2%	42.1%
With primary education, at best	44.8%	56.3%	16.8%	50.1%	41.1%	50.5%	31.1%
By age (credit clients)							
Under 30 years old	19.7%	20.3%	41.5%	44.2%	28.0%	21.0%	21.5%
Between 30 & 60 years old	70.2%	65.1%	50.4%	49.3%	60.8%	59.5%	67.3%
Over 60 years old	10.1%	14.6%	8.2%	6.5%	11.2%	19.5%	11.2%
Monthly net income p.c. of new credit clients USD	**193**	**190**	**231**	**161**	**146**	**370**	**327**
Extremely poor	35	23	42	33	39	53	47
Poor	72	52	79	75	86	91	103
Vulnerable	161	121	171	165	184	218	235
Others	509	488	512	441	589	619	656
Average disbursement of new credit clients USD	**855**	**1,021**	**1,298**	**441**	**301**	**1,229**	**983**
Average monthly sales of new credit clients USD	**1,328**	**1,609**	**1,385**	**1,234**	**826**	**2,187**	**1,554**
Avg. ratio of installment as % of credit client sales	**8.3%**	**6.4%**	**9.8%**	**3.8%**	**14.8%**	**6.8%**	**5.6%**
Segments of savings clients (% clients)							
Rural	37.3%		20.9%	37.9%			
Woman	57.2%	55.4%	46.2%	67.1%			
With primary education, at best	47.6%	57.7%	28.3%	26.0%			
By age (savings clients)							
Under 30 years old	19.0%	10.4%	22.7%	26.0%			
Between 30 & 60 years old	70.3%	74.6%	68.6%	67.3%			
Over 60 years old	10.7%	15.0%	8.7%	6.7%			
Year-on-year growth of savings clients (YoY 2016)	**10.0%**	**5.8%**	**21.4%**	**2.0%**			

BBVAMF
Aggregate data

Their bussinesses

Their bussinesses	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Economic activity (% credit clients)							
Agriculture	15.8%	25.2%	20.6%	4.1%		17.9%	30.5%
Production / transformation	11.7%	14.9%	10.1%	0.2%	25.8%	18.6%	24.7%
Trade	55.0%	41.6%	46.1%	79.6%	65.7%	50.9%	26.5%
Services	17.6%	18.3%	23.2%	16.1%	8.5%	12.6%	18.2%
Nº of employees hired by clients	**104,674**		**35,807**	**44,729**	**13,936**	**3,325**	**6,877**
% of clients reporting they have employees	57%		81%	92%	100%	96%	99%
Nº employees hired (extrapolating to 100% of clients)	**182,790**		**44,073**	**48,731**	**13,957**	**3,481**	**6,965**
Average monthly sales USD	**1,658**	**1,730**	**2,097**	**1,399**	**991**	**2,152**	**1,876**
Agriculture	1,537	1,719	1,179	1,415		1,909	1,405
Production / transformation	1,452	1,453	1,890	1,647	880	1,833	1,706
Trade	1,826	1,980	2,909	1,418	1,018	2,266	2,626
Services	1,377	1,404	1,390	1,300	1,125	2,511	1,806
Average assets USD	**7,812**	**7,520**	**14,717**	**5,300**	**1,489**	**7,969**	**15,121**
Agriculture	10,676	8,540	13,550	7,766		11,954	31,434
Production / transformation	6,598	6,373	14,407	6,878	1,126	6,535	5,759
Trade	6,766	6,523	14,290	5,176	1,442	6,371	7,045
Services	9,319	9,314	16,745	5,267	2,946	10,871	12,230
Net income, installment & costs as percentage of sales							
% Costs	59.4%	61.4%	60.2%	61.2%	45.6%	48.7%	54.8%
% Net income	31.4%	31.1%	27.1%	33.8%	30.6%	44.4%	38.8%
% Installment	9.3%	7.5%	12.7%	4.9%	23.8%	6.9%	6.4%
Financial structure							
Equity/assets	84.5%	80.3%	85.4%	89.2%		89.5%	90.0%
Liabilities/assets	15.6%	19.7%	14.6%	10.8%		10.5%	10.0%

Their development

Their development	BBVAMFG	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Average retention of credit clients							
First year	65.9%	78.4%	57.0%	73.5%	44.0%	63.3%	70.4%
Second year	41.2%	47.1%	32.2%	55.7%	30.7%	35.9%	41.8%
Third year	28.7%	32.8%	20.5%	43.4%	25.2%	23.5%	30.9%
Fourth year	21.3%	23.5%	14.2%	34.2%	21.5%	17.2%	23.5%
Average recurrence of credit clients							
Cycle 2	53.2%	47.3%	55.8%	66.8%	75.0%	56.2%	50.5%
Cycle 3	30.6%	24.4%	34.1%	44.9%	60.0%	34.5%	31.2%
Cycle 4	18.3%	13.6%	21.9%	28.8%	51.5%	23.1%	19.0%
Cycle 5	11.2%	7.9%	14.8%	16.6%	42.8%	16.6%	10.2%
Cycle 6	7.1%	4.7%	10.7%	7.5%	40.9%	11.4%	4.3%
Client linkage by product type							
Credit, savings and insurance	20.5%	29.7%	14.5%	15.4%			
Credit and savings	14.4%	4.4%	15.2%	39.7%			
Credit and insurance	3.6%	4.3%	4.5%	0.0%	4.3%	38.3%	
Credit only	10.9%	0.9%	11.1%	2.4%	95.7%	61.7%	
Improve their housing conditions after two years (% credit clients)	**8.5%**	**9.6%**	**9.2%**	**6.6%**	**11.6%**		**9.5%**
Improve their educational level after two years (% credit clients)	**2.4%**	**2.3%**		**2.9%**	**3.8%**		
Create employment after two years	**7.4%**		**2.4%**	**8.4%**	**4.3%**	**5.1%**	**6.4%**
Performance of 2011 to 2016 cohorts							
Increase in sales (Avg. CAGR)	18.2%	19.1%	14.2%	19.0%	42.9%	10.4%	7.9%
Increase in assets (Avg. CAGR)	25.7%	28.6%	29.0%	22.2%	27.3%	10.3%	11.6%
Business income increase (Avg. CAGR)	18.1%	19.4%	10.6%	18.9%	53.6%	19.7%	4.3%
Net poverty reduction after three years	**44.8%**	**41.9%**	**30.2%**	**52.5%**	**53.5%**	**20.0%**	**27.7%**

Poverty line in 2016 (USD)

Poverty line in 2016 (USD)	Bancamía	Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
Rural						
Extremely poor	29.3	44.1	44.5	51.7	51.7	59.8
Poor	50.5	72.2	91.7	77.4	77.4	107.1
Urban						
Extremely poor	36.0	54.6	46.4	67.1	67.1	70.7
Poor	84.3	104.9	103.0	111.6	111.6	144.1

Information limitations

Information limitations	Comments
Lack of information on certain variables. There are certain variables for which information on some clients is not available.	• Where there are data gaps, client's data has not been used and thus is not included in the samples analyzed. • When calculating financial outcome indicators (sales, net incomes, assets, equity), data was not always available.
Positive bias. Clients' tendency to present a more favorable view of their microenterprise.	• BBVAMF methodology works on the premise that the data is gathered by a loan officer/agent with an informed understanding of the client's circumstances, who will therefore only report data he/she considers reasonable.
Differences in criteria. Indicators are based on the faithful interpretation of each microfinance institution's (MFI) criteria and those of its agents/officers.	• Assets and sales indicators, in particular, are based on the in-depth understanding of each MFI's criteria and that of its agents.
Process limitations. Typically the data is gathered once a client acquires a new product or renews their loan, entering the core banking system. Some indicators, however, are separate from the traditional data collection process and as such are less reliable.	• When we have found the data to be less robust, it has not been presented.
Heterogeneous databases. Not all MFIs track the same set of information about their clients, or maintain it to the same standard.	• Only applies to a few indicators (e.g. type of environment), where information has not been disclosed or a specific criterion has been used (which has been disclosed in each case). • Specifically, some MFIs designate environment (rural/urban) based on the branch with which the client has a banking relationship. The branch is assigned to a municipality/ region that is defined as rural/urban based on local government criteria.

Comments on the variables and indicators chosen

Indicator	Comments
Economic vulnerability	Classification of clients by their *per capita* (p.c.) net income (monthly business income minus monthly business expenses) / (number of people in the household), against the poverty and extreme poverty lines by environment (rural/urban) published by each country's official body *(see National poverty lines section)*. Clients are classified as *extremely poor* (when their p.c. business net income is below the national extreme poverty line), *poor* (when the p.c. net income is below the national poverty line and above the extreme poverty line), *vulnerable* (if the p.c. net income generated by the business is less than three times the poverty line and above the poverty line) and *others* (p.c. net incomes more than three times the national poverty line).
Economic sectors	Based on the United Nations International Standard Industrial Classification of all economic activities (version 4)[1]. • *Agriculture*: agriculture, forestry, fishing, mining and quarrying. • *Production / transformation*: manufacturing; electricity, gas, steam, air conditioning supply; water supply, sewerage; waste management, remediation activities; and construction. • *Trade*: wholesale and retail trade, repair of motor vehicles and motorcycles. • *Services*: transportation and storage; accommodation and food service activities; information and communication; financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support service activities; public administration and defense, compulsory social security; education; human health and social work activities; arts, entertainment and recreation; activities of households as employers, undifferentiated goods- and services-producing activities of households for own use; activities of extraterritorial organizations and bodies.
New credit clients	New clients are defined as those who have not previously had a loan with any BBVAMF Group institution.
Financial statement data (P&L and Balance Sheet)	Indicators with information on sales, assets, disbursements, net incomes, etc. for current clients, taking the values provided based on their latest disbursement, whatever the date it occurred. The exception to this methodology are the performance charts (e.g. growth of average monthly sales), which require the information to be updated in the prior 12 months, that is, which requires the disbursement to have taken place in the previous 12 months (except in the case of Fondo Esperanza, *see Performance and Reduction in the poverty segment* below).

BBVAMF
Notes on methodology

Performance	To prepare sales, net income and asset performance indicators, BBVAMF used data on clients, current at December 31, 2016, who have had a second or subsequent disbursement in the last 12 months and, as such, who have updated their economic data. In exceptional cases, where the information was updated after the disbursement, this information is used for the calculation (i.e. the latest available data is used). Fondo Esperanza is an exception because of the nature of its processes, in which the client's economic information is only updated in the fourth/fifth cycle/disbursement, with the result that the client sample is made up of clients who have had two disbursements (at the outset and at the end, when their financial data was updated) without the stipulation that this had to have happened in the preceding 12 months. The aggregate data for BBVAMFG is calculated by requiring there to have been an update in the previous 12 months, except in the case of Fondo Esperanza.
Reduction of the poverty segment	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. Those clients whose loans have been taken off their MFI balance sheets for non-payment (who have been written-off) are excluded.
Payment installment	The installment has been calculated as a monthly figure (where it had another frequency) and, where the client has more than one loan, all their installments to the institution are added together.
Client retention	The number of clients in each cohort that stays with BBVAMFG (that is, who continue to have a banking relationship with one of its MFIs) after a defined period (yearly in most cases). This is calculated as the difference between the clients at the outset and those remaining at the end of the period.
Recurrence	Proportion of clients who take out successive loans, so, for example, recurrence in cycle 2 are those clients who, having taken out a first loan, take out a second. It is calculated with cohorts from 2011 onwards; to see whether clients have renewed a subsequent loan or not, a minimum time is required for the renewal, depending on the average terms of the institution's transactions. Since the average term is generally about a year, in order to qualify as recurrent in the second cycle, the cohort must have passed a minimum term of 12 months, to qualify for the next cycle, the time passed must be 24 months, etc. The differences in the terms between the methodology for individual loans and for group lending mean that these transactions cannot be aggregated by cycles or disbursements, so they are presented separately and flagged up in each case.
Net income relative to the poverty line	Measures the ratio that *per capita* net income represents relative to the poverty and extreme poverty lines for the environment in question (rural/urban) at the moment when the data is collected (i.e. relative to the poverty line that year). Relative *per capita* net income is calculated taking the poverty line current at the time of the disbursement and, since the measurement is relative, it can be compared over time (in the same way as the financial update of monetary units) as well as comparing between different geographies or segments. The result of (1- relative p.c. net income), represents the distance from the poverty line; for example, if the average net income has the value of 0.82, it is 0.18 below the poverty line.
CAGR	Compound Annual Growth Rate.
YoY	Year-on-year growth rate.

National poverty lines

The official extreme poverty and poverty lines, by rural and urban environments, as published by each country's statistics institute, are used. Where these figures have not been updated, the latest available is taken and updated with that country's annual Consumer Price Index (CPI).

In the case of Chile, the Social Development Ministry changed its method for estimating the poverty line in 2013. Nevertheless, to preserve standardization with the measurements of the other countries, BBVAMF uses the traditional methodology of poverty measurement in which the extreme poverty line is based on a minimum calorie intake and the poverty line on a basic basket of goods and foodstuffs. In the event of the Ministry for Social Development not publishing updates, the latest poverty line available (2013) will be updated using each year's CPI.

Country	Source		Poverty level	Rural (LOC)	Urban (LOC)
Colombia	2015 lines updated with December CPI (5.75%)[2]	2016	Extreme poverty Poverty	87,832 151,493	108,093 252,959
	National Statistics Department (DANE)[3]	2015	Extreme poverty Poverty	83,056 143,256	102,216 239,205
	DANE	2014	Extreme poverty Poverty	78,332 137,612	96,548 229,855
	DANE	2013	Extreme poverty Poverty	77,947 136,192	95,884 227,367
	DANE	2012	Extreme poverty Poverty	77,720 133,522	95,351 223,151
	DANE	2011	Extreme poverty Poverty	74,855 128,593	91,650 215,216
Peru	2015 lines updated with December CPI (3.34%)[4]	2016	Extreme poverty Poverty	148 242	184 353
	National Statistics & IT Institute (INEI) (2014)[5]	2015	Extreme poverty Poverty	143 234	177 340
	INEI	2014	Extreme poverty Poverty	137 226	169 328
	INEI	2013	Extreme poverty Poverty	132 218	163 316
	INEI	2012	Extreme poverty Poverty	128 212	159 308
	INEI	2011	Extreme poverty Poverty	121 203	151 296

Country	Source		Poverty level	Rural (LOC)	Urban (LOC)
Dominican Republic	2015 lines updated with December CPI (1.7%)[6]	2016	Extreme poverty Poverty	2,060 4,250	2,150 4,774
	Ministry for the Economy, Planning & Development (MEPyD), March[7]	2015	Extreme poverty Poverty	2,025 4,179	2,114 4,694
	MEPyD (Mar.)	2014	Extreme poverty Poverty	2,012 4,153	2,100 4,664
	MEPyD (Sep.)	2013	Extreme poverty Poverty	1,985 4,096	2,071 4,600
	MEPyD (Sep.)	2012	Extreme poverty Poverty	1,888 3,896	1,970 4,375
	MEPyD (Sep.)	2011	Extreme poverty Poverty	1,840 3,797	1,920 4,264
Chile	2015 lines updated with December CPI (2.7%)[8]	2016	Extreme poverty Poverty	34,495 51,660	44,765 74,468
	2013 lines updated with December CPI (4.4%)[8]	2015	Extreme poverty Poverty	33,588 50,302	43,588 72,510
	2013 lines updated with December CPI (5.1%)[8]	2014	Extreme poverty Poverty	32,172 48,182	41,751 69,454
	Ministry for Social Development (MSD)[9]	2013	Extreme poverty Poverty	30,611 45,844	39,725 66,084
	MSD (re-uses 2011 figures)	2012	Extreme poverty Poverty	27,436 42,324	35,605 61,366
	MSD	2011	Extreme poverty Poverty	27,436 42,324	35,605 61,366
Panama	2015 lines updated with December CPI (1.5%)[10]	2016	Extreme poverty Poverty	60 107	71 144
	2014 lines updated with December CPI (0.3%)[10]	2015	Extreme poverty Poverty	59 106	70 142
	Ministry of Finance & the Economy (MFE) (Mar.)[11]	2014	Extreme poverty Poverty	59 105	69 142
	MFE (Mar.)	2013	Extreme poverty Poverty	56 102	66 137
	MFE (Mar.)	2012	Extreme poverty Poverty	53 98	63 131
	MFE (Mar.)	2011	Extreme poverty Poverty	49 92	59 125

Exchange rates

All the (historical) data from MFIs is incorporated in local currency and the exchange rate current as of December 31, 2016 is applied so that exchange rate fluctuations do not have an impact on the conclusions.

Country	Exchange rate		Source
Colombia	COP / USD	0.000333	BBVA Bank, mid-market rate on December 31, 2016
Peru	PEN/ USD	0.298525	BBVA Bank, mid-market rate on December 31, 2016
Dominican Republic	DOP/ USD	0.021585	BBVA Bank, mid-market rate on December 31, 2016
Chile	CLP/ USD	0.001499	BBVA Bank, mid-market rate on December 31, 2016
Panama	PAB/ USD	1.000000	BBVA Bank, mid-market rate on December 31, 2016

Notes (1) https://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27&Top=2&Lg=1 (2) https://www.dane.gov.co/index.php/en/statistics-by-topic-1/prices-and-costs/indice-de-precios-al-consumidor-ipc(3)https://www.dane.gov.co/index.php/estadisticas-por-tema/pobreza-y-condiciones-de-vida/pobreza-y-desigualdad/pobreza-monetaria-ano-movil-julio-2014-junio-2015 (4) https://www.inei.gob.pe/biblioteca-virtual/boletines/informe-de-precios/12/ (5) https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1347/index.html (6) http://www.bancentral.gov.do/estadisticas_economicas/precios/cvipc/cipc.php(7)http://economia.gob.do/mepyd/wp-content/uploads/archivos/uaaes/boletines/boletin-pobreza-septiembre-2015.pdf (8)http://www.ine.cl/canales/chile_estadistico/estadisticas_precios/ipc/base_2013/(9)Traditionalmethodology.http://observatorio.ministeriodesarrollosocial.gob.cl/documentos/Casen2013_Situacion_Pobreza_Chile.pdf(10)https://www.contraloria.gob.pa/inec/Avance/Avance.aspx?ID_CATEGORIA=2&ID_CIFRAS=10 (11) http://www.mef.gob.pa/es/informes/Documents/Pobreza%20e%20Indigencia%20-%20Marzo%202014.pd

Innovation in our DNA

In recent years the wave of technological change in financial services has improved financial inclusion, quality and sustainability. BBVAMF wants to be part of this process, particularly in the technological arena, to put the opportunities of this new era within reach of everyone.

In the last 30 years, microfinance has made possible the largest wave of financial inclusion in history, essentially in developing countries. It was in the fifties when financial inclusion began to take root in these countries, focusing above all on credit offered by public institutions. From the eighties onwards, major progress was made towards achieving sustainable models, with greater cover. After this, in the nineties, the term *microcredit* began to be replaced by *microfinance*, going from a single product offering to one with a range of products and services.

This progress was achieved using a branch office model, in other words, involving direct personal relationships with the client, which built up a system based on trust. This is essential when targeting low-income segments but implies a high expenditure to revenue ratio: labor costs account for nearly half of total operating costs.

The model has now come up against its limitations: low efficiency because of the high costs deriving from the average size of transactions in this sector, transaction costs for clients, especially those in rural areas, and the unavoidable infrastructure outlay needed in order to serve these areas.

As a result the most vulnerable clients and those living in the remotest spots have not been included. Today, 2 billion people, 38% of adults in the world, do not have access to formal financial services; most of these are in rural areas and on the whole are located in developing countries. Demographic density and *per capita* income have been the main factors that have had a repercussion on financial inclusion.

The limitations of a static model have conditioned the rate of progress in financial inclusion, but perhaps it has been the best model available to deal with the obstacles the sector has faced in serving the financial needs of people in a situation of poverty. They have particular circumstances, a structure of preferences that conditions their long-term performance and high volatility, both in their activities and in their incomes. Along with these elements, there is the cost that institutions must assume to access information about their clients' activities and performance, the implicit uncertainty in the absence of guarantees and/or collateral, and the higher costs of serving more vulnerable groups who are geographically dispersed. All this has given rise to high transaction and delivery costs.

Another dimension implicit in the model, and no less important, is voluntary exclusion, as well as many people who remain in the system once they have accessed it, but who have faced high transactional costs to receive services. In other words, if it costs someone who wants to make a savings deposit a quarter of the amount they are saving to get to the branch office, even without counting the opportunity cost of not being engaged in their occupation during that time, they will prefer to use informal sources.

No less important are the technology limitations which the microfinance industry has faced in this period, particularly significant in these segments. The progress in the rest of the financial system was designed for other segments, while the development of solutions adapted to this segment ran up against major shortfalls, both in attributes and in costs, with the result that innovations lacked the scale needed for the enormous task of inclusion.

Less than 5% of the population had access to this technology in the mid-nineties. The average cost of a cell phone is equivalent to a year and a half's income among the most vulnerable segments.

Traditional banking's mobility solutions, cash machines, cards and online banking were all designed for clients who were already included or who had other characteristics. The vast majority of operators did not have access to an appropriate core banking system that provided them with an information management system to promote the take-up of more inclusive models, which would overcome branch office restrictions and encourage alternative channels for contacting with the most remote excluded segments.

These, in turn, faced major barriers to entry in using technology. The main and virtually sole channel giving the poorest people technological access is the cell phone. The average cost of a cell phone was equivalent to a year and a half's income in these segments, and lines were limited, being available to people with access to the financial system, ie. who had credit cards. Less than 5% of the population had access to this technology in the mid-nineties.

All these elements contribute to explaining why access to financial service has been rationed in the last 30 years, on average, to 60% of adults in the world. For these 3 billion people and their family dependents, operating on a daily basis with cash makes it difficult to save or think about the future and it inhibits social mobility, perpetuating the precarious conditions at the outset and making them more vulnerable.

1. Technology in financial inclusion

However, in recent years this situation has been reversing, thanks to a series of innovations in financial services, which have improved financial inclusion in terms of access, quality and sustainability. At the heart of these innovations is the wave of technological changes that, particularly in the last few years, has made it possible to adopt innovative, less expensive business models to provide financial services, making it viable to reach the poorest and most remote segments.

We are in the midst of the biggest revolution in information, communications and democratization of access to technology in the history of humanity. For example, more than 40% of the world's population has access to the internet, and nearly seven of every 10 homes, of the 20% poorest, have a cell phone. For many people, the current expansion in access to digital technology broadens the options available to them and makes a series of activities easier to consider doing.

We have entered a new era, marked by the democratization of technology and a change in consumer behavior, which requires a complete transformation of the financial system if it is to adapt to the new competitive panorama that is unfolding, with new players entering the sector.

FinTech is an industry that uses technology to make the financial system and the delivery of its services more efficient. Many of these companies have sprung up in response to the changes in how people and companies save their money, make payments, invest, apply for loans and buy insurance products. Nowadays, millions of people throughout the world carry out a broad range of financial transactions using other channels, without having to go to a bank branch, which encourages a new model of interaction.

Access to these technologies opens up opportunities that formerly were out of reach for the poorest and most disadvantaged sectors. Technology is for everyone, and the fact that they live in remote areas or have low resources should not create a barrier to digital inclusion, but rather an opportunity to move forward and be creative about how to integrate these segments. Putting effective tools into the hands of people in situations of poverty, tools that help them to develop, is the real power and potential of technology.

One of technology's most important gifts is the greater mobility it brings. This, without a doubt, is a key component of progress in financial inclusion. Clients are no longer received in offices; the bank goes in search of them, creating the appropriate channels of interaction. This minimizes the transaction costs incurred by people accessing a financial service and makes the model more efficient. Both are important catalysts for inclusion.

New financial inclusion centers on implementing branch-less banking models centered on technology. These models reduce the cost of making a transaction by using digital and mobile technologies and leveraging the presence of existing retailers. They close the gaps in branches' infrastructure to make clients' convenience a reality and offer more affordable services.

New financial inclusion centers on implementing branch-less banking models based around technology, that make it viable to reach the poorest and most remote segments.

Furthermore, one of the most important dimensions of technology is the availability of information. Financial services are, in essence, an information business. The problem of lack and/or asymmetry of information lies at the heart of financial exclusion. Some of the most important contributions of new technologies are: the increased quantity and quality of information available when looking for new clients, the strengthening of relationships with existing clients and risk management. Other impact areas affect a wide range of existing products and business models, where digital data enriches decisions or helps to automate processes.

Another dimension that is not so frequently mentioned, but no less important, is the speed of response in different interactions with this type of client. Scarcity and precarious conditions are a permanent reality for them; as such they need shorter response times with solutions that enable them to seize opportunities and cope with unexpected events.

2. Responsible Productive Finance

Responsible Productive Finance, practiced by BBVAMF, can therefore deploy technological solutions that satisfy the purpose of reaching greater numbers of vulnerable people, bearing in mind twin dimensions: scale and reach, and sustainability (efficient and effective), to strengthen the interface with clients.

Our institutional mission of promoting our clients' economic and social development means that our entities must have a business model that is centered on clients and meets their financial needs. We work with a relational banking model that requires, on the one hand, our presence along the length and breadth of the countries where we operate in order to reach our clients; it also requires our institutions to be close and stay with clients throughout their life cycle, in the knowledge, as our own experience has shown us, that this accompaniment is a factor that influences their development.

> This model focuses not only on financial accessibility, which is important *per se*, but also on staying close to the client. We make the journey with clients.

It is clear, from the size of the loans we originate, that our relational model is very intensive in terms of people and client contact, something which is fairly costly and it is precisely for that reason that innovation in all its aspects, whether in technology or in improving or creating new process or in supplying new products, acquires vital importance if we are to ensure that our institutions can achieve critical mass, signing up many more clients, and sustainability, in order to operate with lower marginal costs.

Our Responsible Productive Finance model also involves a significant challenge that consists of contributing technology solutions that enable us to retain the spirit of the model, providing financial products and services to clients who are developing a productive activity, which enables them to generate surpluses and raise their incomes on a permanent basis.

This model focuses not only on financial accessibility, which is important *per se*, but also on staying close to the client. We make the journey with clients as they develop their financial and business culture, which has been shown to be a necessary adjunct to their natural skills, and which ensures a high success rate.

The technological and innovation solutions that we develop are not designed to substitute personal relationships, but to reinforce them, making them better and more efficient. Managing information and their data leads to discovering and efficiently identifying clients' capacities to develop productive activities, whether for self-employment or in small enterprises with scope to grow.

In BBVAMF we are aware of this reality and of the challenges imposed by our model, so, leveraging the opportunities opened up by technology, we have worked on five dimensions: core banking, the distribution model, digital channels, innovation in risk models and products. These are the factors that we believe have the greatest impact on inclusion, on whether people stay in the financial system and on efficiency.

3. Core banking system

Our core banking system is the centerpiece housing all the institution's business information. We decided to install a solution designed to handle the processes specific to microfinance, that needed to be particularly powerful in risk tool configuration and that also had a technology infrastructure that would make the time-to-market fast enough to satisfy all kinds of channel.

It is a customer-centric platform that manages clients by profile and characteristics. New product configuration is quick and flexible, which ensures that we can look after different types of clients appropriately. This flexibility, associated with the other strategic essential (appropriate management of business processes) has enabled us to establish the groundwork for *humanizing the client experience.*

> The core banking system makes new product configuration quick and flexible, which ensures that we can look after different types of clients appropriately.

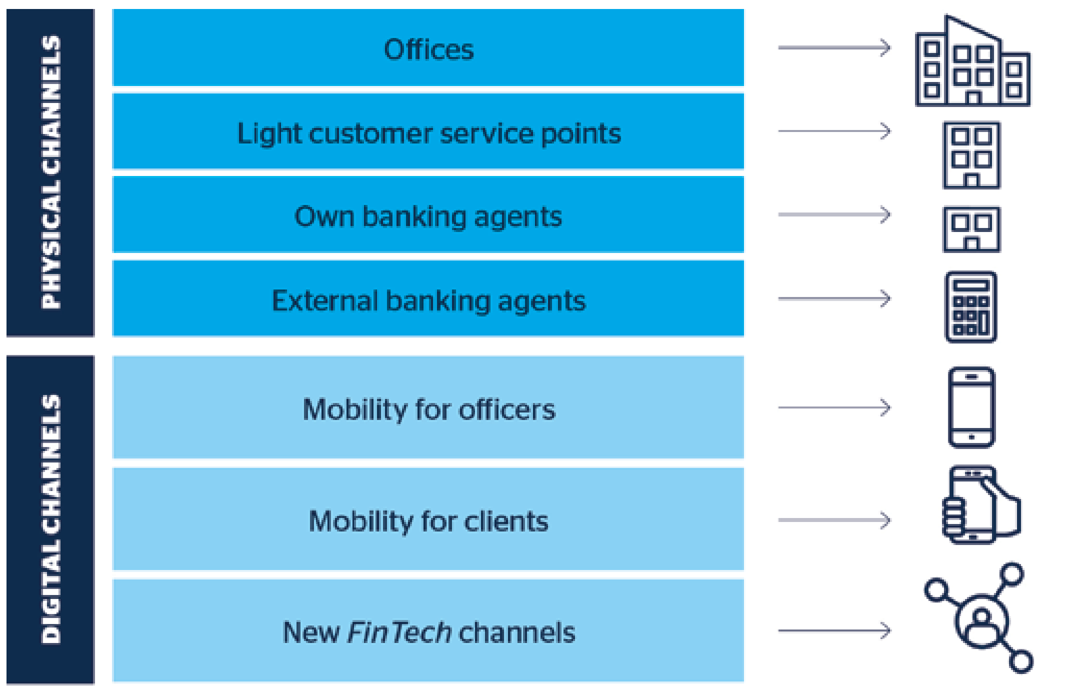
This solution means that its package of functionalities can be installed in any type of technology architecture such as, for example, Oracle's solution in our bigger institutions and SQL in the smaller institutions, without losing any functionality. We maintain the synergy of a Group-wide platform but match the infrastructure expense to the size of the institution. What is more, its SOA architecture means that channels can be developed quickly and the solution installed in the cloud. All these mobility solutions are connected to this banking core system, making them more efficient, and enabling these types of operations to be monitored in real time.

4. Distribution models

In order to reach more people more effectively, BBVAMF Group's distribution model has changed from a traditional branch office model to a multi-channel one, with additional channels (both physical and virtual) that support commercial dynamics. These complementary channels bring our institutions' products and services closer to our clients, with lower transactional costs, both for clients and for the institution.

Light offices and banking agents are the key components of this approach. The former enable us to reach rural or remote areas where microfinance has not yet arrived, with light customer service points, staffed by just a few officers, mainly located in rural areas where a traditional office would be unviable because of the low volume of clients they could serve.

Distribution channels



Their function is principally commercial; they provide information to clients and make assessments for loans. For monetary operations they rely on the banking agent network.

This model was created in order to reach far-off areas, where there are many vulnerable clients. In this way we increase the capillarity of our institutions, with lower investment costs and more agile roll-outs.

Banking agents, meanwhile, mean that the client has to travel as little as possible to carry out transactions with our institutions. Close to the client, they are existing commercial premises that are open to the public, located mainly in rural areas and those close to large conurbations, where our clients can conduct basic transactions, as though they were in one of our branch offices.

Unlike other proposals already available on the market, our model of external agents is based on proprietary technology, developed for mobile devices, that allows agents to provide the main banking operations: balance queries, loan installment payments, deposits and withdrawals from savings accounts. These are all completely aligned with our core banking system, which represents a saving in the transactional cost for the entity; but much more importantly, it guarantees a saving for the client in both time and money because of the greater closeness, convenience and flexibility.

Clients no longer have to shut their business to travel to the branch office (two or three hours, there and back), with the attendant loss of business and the transport cost *(see Banking agents special project in Colombia and the Dominican Republic).*

Moreover, to make operations in this channel much more straightforward, we use biometric fingerprint authentication systems, which has reduced identity verification times and, with them, transaction times. The use of biometric authentication has a positive influence on client behavior, triggering greater commitment on their part and better credit performance.

5. Digital channels

The distribution model aims to minimize the branch office channel, currently the main form of contact with clients. It is true that most new branch offices are being opened with a light office concept, more suited to the needs of our institutions. Although we understand that branches must continue to exist as our reference for physical centers, other, more efficient and effective ways of reaching clients exist.

To achieve this, we must provide a mobility solution for our network associates that enables them to operate from any point on their daily routes, without having to visit the branch, to develop a strong network of own banking agents and to provide our clients with a solution that makes it easy for them to interact digitally with our institutions' services.

Thus, within the strategy defined for developing digital channels, we identified three distinct work streams: the loan officer's mobility, the mobility of our banking agents and the mobility of clients (mobile banking). Our model of relationship banking, intensive in terms of client contact, relies heavily on our sales officers, given the proximity and links they generate with each of our clients on their initial visits, follow-up visits, etc. In essence, the officer is the public face of our institution.

Hence the need to make the daily tasks of each officer simpler, more efficient and more effective since these are the key tools in providing a better service to our clients.

This idea was the inspiration behind the *Sistemática Comercial* [Sales System] program, which organizes our officers' daily workload, creating a general activity template with standardization of sales processes, protocols and work procedures.

Thanks to the mobility program, loan officers' mobile devices have functionalities that make their work much more efficient and at the same time enable them to operate from the clients' own place of work or indeed anywhere.

The main functionalities in our mobile application are: managing the daily appointment diary, accessing complete information on every client, geo-referencing clients to optimize their visiting routes, being able to sign up clients and submit credit applications, approving some loans on the spot during the visit, being able to take money for loan installment payments in the field and to print out the receipts for the client with a mobile printer. This solution also allows officers to complete the sales process *in situ,* even enabling them to print out contracts. All this is a more efficient use of the loan officer's time, improves response times to applications and, in short, provides a better service to the client.

This application works on a tablet or cellphone and contains the principal operating functionalities of core banking. This solution can be used for working online and offline; in the latter case, it sends data automatically to the core banking system when it identifies that there is an active data channel; it also complements each institution's banking agent network, facilitating client operations *(see Mobile banking special project, in Colombia).*

This same solution, with minor security additions, serves to create a proprietary banking agent network in places where no other networks exist. It will be possible to approve the transaction in the client's

Mobile banking seeks to provide a low-cost transactional medium, support client digitization and minimize the transfer risk of cash.

presence and disburse the sum immediately, whether in a savings account or in cash, in any of our branches or banking agents.

Client mobility, or mobile banking, is already operative in two of our institutions, enabling our clients to manage their savings, their loans and to carry out transactions, monetary and others, in real time from their cellphones (whether these are smartphones or not and whether they carry data or not). It is supported by physical channels (banking agents) to manage cash-in/cash-out.

Mobile banking is linked to the client's savings account and seeks to (i) offer clients a low-cost transactional medium, particularly those whose geographical location makes it difficult for them to access banking services; (ii) promote the active use of savings accounts; and finally, (iii) support client digitization by keeping the money within the mobile banking system, minimizing the transfer risk.

The channel is gradually being used more as clients familiarize themselves with the technology and trust increases. As of today, the channel is mainly used for non-monetary transactions, particularly queries about movements, balances and debt obligations; in monetary transactions, the predominant operation is topping up the balance on the cellphone.

However, the idea is to make this channel a real mobility tool for the client. Unlike other technology solutions, which depend solely on us for implementation, this alternative is highly conditioned by external factors, such as the obstacles our clients face in accessing communications, the difficulty in setting up straightforward digital economic flows between users of different institutions, and the lack of digital culture among end users.

Although the lack of digital culture can be addressed gradually with clients, communications and electronic clearing have to be resolved by governmental regulators, allowing the most vulnerable to have affordable access to communications – probably along the lines of *México Conectado* [Connected Mexico], and also to be able to carry out transactions with other users without the complexity of current clearing systems, rather like the process being rolled out in Peru with the BIM system (with the public company Pagos Digitales Peruanos S.A.).

Despite all these obstacles, we think that this is a digital solution that not only serves clients' need to operate with banking products, but that helps them in other aspects of their daily lives, such as purchasing non-banking services, financial education, local information of interest (market prices, weather forecasts, etc.). It does this by giving them a direct communication channel with their officer, a social network for their community and a tool for recording and monitoring their daily cash flow. The offering contains all these elements, making it possible to strengthen this channel, which is essential if progress is to be made towards greater use of cashless operations.

6. Innovation in risk models

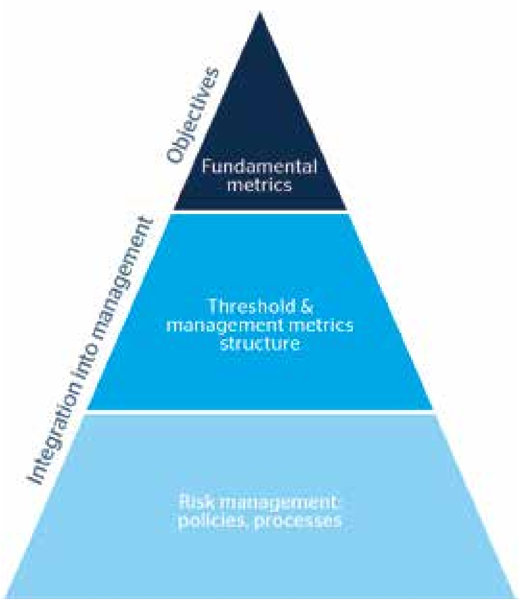
Traditional methods of assessment in microfinance are based around *in situ* assessment of each client in their workplace, with face-to-face visits and one-to-one interviews. These determine whether clients have *intent to pay*, that is, whether they will be prompt payers or not; and also

their *ability to pay*, or, depending on the economic health of their business, how much they can pay a month.

It is important to stress at this point that in BBVAMF we only work with people or micro-enterprises with a productive activity, and, furthermore, that we are only obliged to originate a loan in those cases where our clients' businesses or projects are viable and, as such, will have the opportunity to generate more net income for them.

In view of this, our risk model in BBVAMF aims to provide our sales officers with more objective information, that enables them to take better decisions and, at the same time, to try to give the client a faster response. The components of innovation in the risk model area are divided into: general risk appetite, scoring models, reference margins, collection scoring, real-time monitoring and non-traditional information models.

General risk appetite framework



6.1 The general risk appetite framework

This allows risk appetite methodology to be incorporated into BBVAMF institutions' strategic planning processes, as well as providing one of the best practices that exist in the international market, helping to ensure stability over time in risk outcomes and thus to support the institutions' sustainability. BBVAMF's risk governance model stands out for the close involvement of its organs of governance, both in setting the risk strategy and in monitoring and continuous supervision of how it is being implemented.

6.2 Scoring models

These help to reduce the subjectivity of our decisions. In BBVAMF we have been working for several years on scoring models that enable us to use historical information about our own clients' profiles to infer each of their risk levels automatically from the first contact. This risk measurement helps all the officers in our institutions to respond on the most straightforward transactions (those with less risk) using a much faster procedure; they can then leave the more complex ones to people with more experience. Under no circumstances do we use scoring models as a tool for exclusion.

From the methodological perspective, availing ourselves of this information from the first contact means that proprietary scoring models can be designed that are adapted to the different client segments we serve; and from the technology perspective, their integration into the banking core means that they can automatically offer the loan officer the necessary support to complete their final decision.

It is logical to assume that in a credit assessment, receiving an application from a new client about whom we know very little in terms of their payment behavior is not the same as receiving one from someone who has grown with us and has complied impeccably with their commitments.

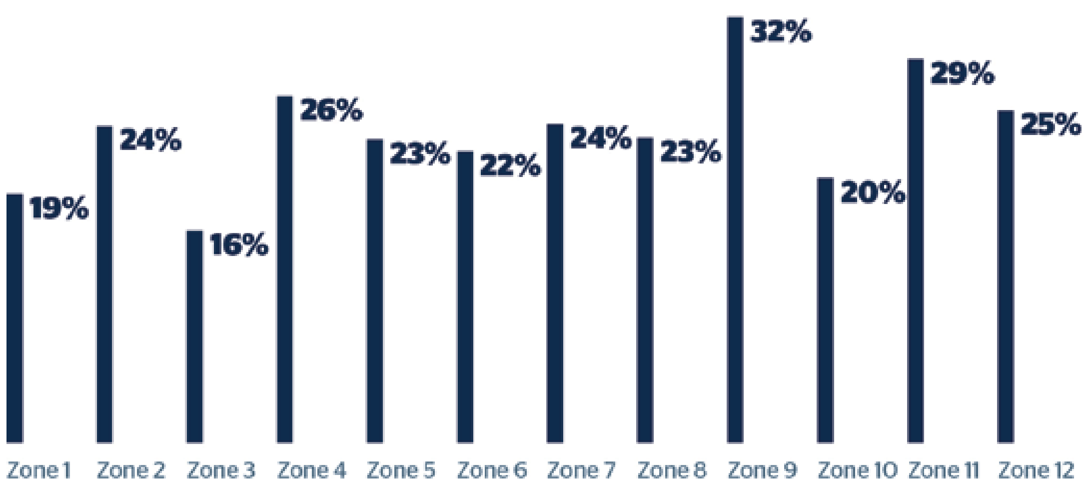
Scoring Models

To acknowledge that fact, we have designed different scoring models for each segment; in the first case greater weight is assigned to the client's profile information: their age, experience in their activity, civil status, composition of their family unit, etc.; in the second, the information about payment behavior is more highly weighted, becoming the officer's key reference.

6.3 Reference margins

This enables analysis to be standardized and to reduce the subjectivity of our decisions. One of the assessment phases of the risk inherent to an operation in microfinance is the quantitative assessment estimating ability to pay, in which the methodology for collating economic data is highly subjective; this can result in two different officers obtaining variations in the quantification of the client's income and expenses after they have conducted the same analysis.

Activity margins in clothing sales



Developing this methodology enabled us to prove that every economic activity has a similar business margin, but that at the same time this differs depending on the client's geographic location. With these outcomes we expect to obtain more objective financial analyses, that accurately reflect our clients' situation, standardizing their business margins by their activity and geographical location, and incorporating this standardization into the credit assessment process.

6.4 Collection scoring

This provides more efficiency in collection processes. Using historical databases on our clients' payment behavior, profile data, economic characteristics and the different collection arrangements we have in place, we succeed in predicting their payment probabilities.

Traditional recovery models focus on resolving who should manage collections and what that management should consist of. Thanks to our collection scoring, we have included a third question: from whom should I collect first? At the same time we have enhanced the decision-making process about who is the best person to collect from each client.

With these payment probabilities for each client, every month the collection officers carry out this task, which is more efficient from the perspective of our institutions, and which from the client's point of view is better adapted to their particular needs. In many cases they succeed in anticipating debt restructuring options for clients who may be just starting to show problems with their business.

6.5 Real-time monitoring

This makes it possible to see portfolio performance in real time. Most of our decisions are taken every day on a local basis in our offices. This requires a major effort on the part of our institutions, to try to reduce the subjectivity of their analysis and standardize their criteria and policies.

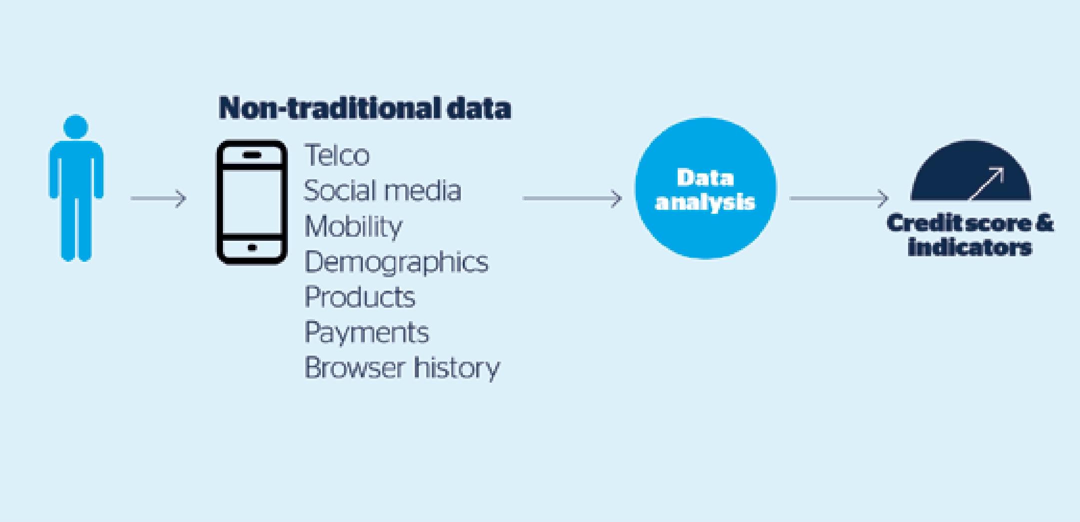
> BBVAMF's risk model aims to provide our sales officers with more objective information so that they can make better-informed decisions and at the same time try to give the client a swifter response.

Nevertheless, in such a wide network, reaching so many and such diverse places, we need to monitor closely to determine the quality of the assessments made by our officers so that we are really originating loans responsibly and, in conclusion, not jeopardizing the sustainability of our institutions.

At BBVAMF we have designed a new methodology using information acquired by our officers on their visits to predict each client's risk level; with this data, branch office managers have at their disposal information in real time about the quality of new actions at a number of levels: each client; each officer portfolio; and each office. This will allow them to see in good time likely misalignments from the target client profile that we are accepting or, for example, which officers need more assistance or training.

In addition to all these innovations in our risk models, we have made progress in designing assessment methods that incorporate non-traditional information to estimate a client's payment behavior; information about payment of public services, geo-referencing of the client's home and workplace, historic log of cell phone usage patterns.

Real-time monitoring



These are just some of the new proposals for improving client assessment, all of them focusing more on people who have never had a loan in the financial sector.

7. Products and services

Our business model implies a greater understanding of clients and their needs; based on this experience, a range of products and services is being developed to meet each segment's expectations.

7.1 Flexible payments

One of the projects underpinning this personalized management in credit products is the *Flexible payments* project, the purpose of which is to adapt the payment system to service a loan depending on the cash flow of clients in the agricultural segment. This product has given access to new clients who otherwise would not have been able to fulfill regular payments, but which are viable under this payment scheme adjusted to the revenue creation cycles of this particular sector.

Furthermore, we have developed other products and services that contribute to the progress and enterprise of our clients and to improving their standard of living and those of their families. Among the most representative is the education loan, the home improvement loan and the microfranchising loan.

7.2 Education and housing loans

The education loan is a product that makes it easier for the most disadvantaged students to access financial services and enables them to start, continue and finish technical and tertiary studies. Through agreements with several educational institutions, we offer financing to cover tuition, books, transport, study materials and other equipment they need for their studies. With these loans we are promoting education in the countries where our institutions have a footprint and, most importantly, in facilitating education we are ensuring a future in which our clients' children will have more opportunities for personal, economic and social development.

Another very important aspect in the development of our clients is the loan scheme for home improvements. We have designed products so that our lower-income clients in particular can afford this, supporting them in the process of identifying improvements with an *Asistencia Técnica Constructiva* [Constructive Technical Assistance] program that identifies how to build and/or upgrade their homes appropriately and in line with what they can afford. The specific needs in each case are identified and a program of gradual improvements and viable solutions drawn up, advising the client on the construction/refurbishment stages their home will undergo, and with the commitment that the work will be completed. The aim of this product is to improve the living standards of our clients and their families, increasing their business productivity, since this helps to make the space where they carry out their productive activities more suitable *(see the Casafin special project in Panama)*.

7.3 Microfanchises

Another product that has a major impact on our clients is micro-franchising. We are continuing to make progress with this business model, which is mainly targeted at women (female heads of household), and is a recognized strategy for developing entrepreneurial ability, enabling income levels in the most disadvantaged groups of the population to be increased. It is based on a template for sustainable and affordable business models, has a proven distribution model, and one where the product being sold is of interest to the community *(see the Microfranchises special project in the Dominican Republic)*.

> A range of products and services that meet the expectations of each segment is being developed such as, for example, the education loan, the home improvement loan and the microfranchising loan, among others.

By applying this model we facilitate financing for distributors and sellers, as well as other products and services that support their development and progress. Thanks to the financing they receive, they buy the inventory, and we therefore guarantee the continuity and sustainability of their entrepreneurial activity. A large part of this model's success is down to the fact that it gives people extensive skills while guiding those with little or no business experience to manage and administer their micro-enterprises, making it easier for them to perform these productive activities.

The specific characteristics of our target client type, people who in the main are economically and socially vulnerable, have led us to abandon the single-product model (credit) prevalent in the sector. Offering a range of financial products and services that enable our clients to meet their different needs is fundamental, and part of our reason for existing. Our savings and insurance products are particularly important here.

7.4 Microinsurance

Microinsurance offers clients the opportunity to protect their wealth. Insurance has a direct impact on the vulnerability of our clients, enabling them to manage more efficiently those risks that are beyond their control and that could have catastrophic consequences on everything they have built up for themselves and their families. Insurance, very developed in other segments of the population, has only a small foothold and, in some cases, has yet to arrive. On this journey, in BBVAMF we have faced a number of difficulties: the need to establish strategic partnerships with insurance firms and brokers who understand the specific characteristics of our clients and find the way to give them a tailored response; the need to find a premium and assured sum that matches what our clients can pay; and finally, the low level of awareness or understanding of insurance on the part of our clients' officers *(see the Microinsurance special project in Chile)*.

In this scenario a tool has been developed that is installed in officers' mobile devices and which supports them in the sales procedure in the field, offering them all the resources they need to teach themselves. The tool identifies which offering should be made to each client based on an identification of their specific needs, and provides officers with a number of sales resources (videos, images, sales pitches, responses to objections, etc.), that helps them explain the product to the client more convincingly.

Indexed agricultural insurance policies have been developed for farming entrepreneurs who face a number of challenges, among which the most difficult to resolve is the managing the risks specific to this type of activity. Traditional agricultural insurance has lots of disadvantages that limit its success among these clients, the most important of these being the high cost and the time it takes to assess the loss and pay compensation, because the loss adjuster has to go personally to the affected area.

Indexed insurance policies calculate the ratio of the insurers' expected losses based on an objective and measurable external index, so that by using this index the client can be recompensed swiftly, obviating the need for the loss adjuster's visit. We are currently testing in one of the institutions how this type of insurance works, trying, basically, to make it affordable for our clients.

> Insurance has a direct impact on our clients' vulnerability, enabling them to manage those risks that are beyond their control and that could have catastrophic consequences for themselves and their families.

7.5 Promoting savings

The liability product offering enables us to encourage a culture of formal saving among our clients. Encouraging saving by our clients means helping them to achieve their projects and long-term goals. In order for this culture of saving to have a real effect on these aims, it has to be recurrent and disciplined; these requirements are the main challenges to overcome *(see the Savings for All special project in Peru)*.

To support our clients in this arduous task, we are testing a platform for two-way interaction between the client and the institution via sms; we send personalized messages that adapt to each client with the frequency and content appropriate to the client's replies and interests. Behind this is a very powerful algorithm that uses Big Data technology; through its recurring interaction it accompanies the client, reinforcing the importance of saving, resolving operating queries and other related services. ■

Sector development

BBVA Microfinance Foundation is following a steady course implementing initiatives that drive the transformation of the microfinance sector and the elimination of the obstacles to its expansion.

Over the decade we can point to the work of disseminating good corporate governance practice, the promotion of better regulatory environments, training of human capital and the drive in social impact measuring systems. The microfinance sector has also been assisted in its growth by the strategic partnerships we are developing, together with the institutional activity and recognition received over this period.

1. Initiatives

Corporate governance

BBVA Microfinance Foundation (BBVAMF) is convinced that a good institutional corporate governance system leads to clear organizational structure, with well-defined lines of responsibility that are transparent and coherent, and effective procedures for managing, monitoring and communicating risk.

Corporate governance develops the internal checks and balances of institutions and, as such, is essential to generate transparency and trust among investors and attract capital flows. It also contributes to efficient management and takes the demands of different stakeholders into account, helping to build up the reputation and integrity of the microfinance institution, promoting clients' trust.

BBVAMF, which is committed to developing the sector and aware that good corporate governance constitutes one of the greatest challenges facing the microfinance sector in Latin America and the Caribbean, defined a *Universal Corporate Governance Code for Microfinance Institutions*, a benchmark document for the sector that lays out the principles and standards that all microfinance institution's good governance code should contain, in line with internationally accepted standards and good practice.

So that it could be adopted and applied in practice, BBVAMF worked with the Inter-American Development Bank to draw up *Guidelines for the adoption of good governance principles in microfinance institutions*. The guide has an attached *Passport*, a self-diagnosis survey with a list of the essential questions that can help any microfinance entity identify areas for improvement in its own good governance.

BBVAMF has organized nine good governance training workshops, open to the rest of the sector, for board members of microfinance institutions. Up to 2015, BBVAMF trained over 400 board members and senior management of over 230 microfinance institutions in Colombia, Peru, Dominican Republic and Costa Rica. SBS, the Peruvian banking and insurance supervisory body's training center, Asomif, Peru's Microfinance Association, Fepcmac, Peru's Municipal Savings & Loan Federation, Redcamif, the Central American and Caribbean Microfinance Network, Redcom, the Costa Rican Network of Organizations for the Micro-enterprise, Abancord, the Dominican Republic's Association of Savings Banks and Credit Corporations, Banca de las Oportunidades and Bancoldex have all been key partners in achieving success in these workshops.

In December 2015, BBVAMF approved its new *Corporate Governance Code* for all the institutions in the BBVAMF Group, a scorecard to interpret the values and principles of governance shared by all. This is a framework for strengthening its commitment to generating inclusive social impact, long-term sustainability and the creation of value and good name, which differentiates the Group and improves its performance.

The Code has been recognized as one of the *10 best transparency and good governance initiatives 2015-2016* selected by *Compromiso Empresarial*, journal of the Fundación Compromiso y Transparencia [Commitment & Transparency Foundation], for the design of a governance model in line with the highest international standards, that can be adapted to all countries' own legislation through regulations and internal norms. BBVAMF Group's Corporate Governance is a document of reference in the sector and for groups operating across different jurisdictions.

Promoting better regulatory environments

Making financial inclusion a driver of inclusive and sustainable economic and social development in disadvantaged segments of the population requires a responsible regulatory framework. BBVAMF publishes *Progreso Microfinance: Corporate Governance, Inclusion and Development*, a quarterly digital newsletter about legal news in the microfinance sector, that collates the most important legislative and regulatory developments in the sector and new developments in corporate governance, worldwide. This publication reports on the trends influencing change in the regulatory framework, in order to support better informed decisions and debate.

Progreso Microfinance includes the most important microfinance news in the legal arena, provides direct links to the documents cited in the publication, as well as expert commentary, opinion articles and interviews. It is targeted at the main players in the microfinance world: governments, regulators, supervisors, multilateral institutions, universities with a microfinance specialty, rating agencies, the media, foundations and non-profit financial entities, financial associations and institutions.

It reports on two aspects that may enable the sector to expand efficiently. Firstly, on each country's key legislation and the main trends in regulation; and secondly, disseminating corporate good governance principles, in order to create awareness about their importance for the sector's sustainability.

Human capital

In 2009, BBVAMF joined forces with the Inter-American Development Bank to create a *Microfinance Specialist Training Program* (the Program), for the purpose of up-skilling loan officers in microfinance and thus mitigating the lack of specialized professionals in the sector, which represents an obstacle for expansion.

The *Corporate Governance Code*, one of the ten best transparency and good governance initiatives for the governance model.

The *Microfinance Specialist Training Program* was developed in conjunction with the National Distance Learning University of Spain (UNED) and universities and prestigious tertiary education centers in Latin America (Universidad del Pacífico, Universidad Javeriana, Instituto de Estudios Bancarios, Universidad Latina and Autoridad de la Micro, Pequeña y Mediana Empresa-Ampyme), that train students from an economic, entrepreneurial and social perspective in a broad understanding of the microfinance sector, specializing in and adapted to the very low income population profile that they will be serving.

The Program had two training modules, online and face-to-face, and participants were awarded a dual certificate from both universities - their national university and Spain's UNED. The program ran from 2009 to the end of 2013 and trained 1,669 microfinance specialists in all across the 48 courses in Peru, Colombia, Chile, Argentina and Panama.

Microfinance Campus

In BBVAMF, training is strategic leverage that influences the sector, the institutions, those working with us and clients, through the learning and knowledge they need to promote sustainable and inclusive economic and social development. To bring this to life, in 2015 BBVAMF set up the *Microfinance Campus*. This is a company program to guarantee a training offering that increases associates' knowhow, skills and abilities to improve their qualification, professional growth and enhanced performance, centered on our clients' development.

With this in mind, a global and digital LMS (*Learning Management System*) platform was rolled out, with easy multi-device access for the Group's 8,000 plus associates, middle managers and senior staff, which integrates innovative training solutions and places a value on internal knowhow and good practices honed during the Group institutions' years of experience in the microfinance sector.

The catalogue contains more than 3,000 teaching hours and cross-disciplinary contents developed with new teaching methodologies, supported by the use of digital technologies. Since the *Microfinance Campus* was launched, it has imparted over 750,000 hours of tuition in subjects such as client development, risk, sustainability, project management, corporate governance, information systems and induction for new sales officers.

The drive for social measurement

BBVAMF developed its social measuring system for the purpose of assessing the social performance of its actions, and to see the impact on the lives of people we are serving and accompanying. It has been published in the annual report since 2012 and has become *best practice* within the sector. It was acknowledged as such in the report *Business and the UN. Working together towards the SDGs: A Framework for Action*, University of Harvard Kennedy School, commissioned by the UN's SDG-F.

BBVAMF has presented its social measurement system in several specialist sector forums around the world (Madrid, Santiago de Chile, Washington, Brussels, Morocco, Bogotá and Luxembourg, among others). What is more, BBVAMF's social measurement system is published as a case study in the report *Guidelines on Outcomes Management for Investors* report. This publication by the European Microfinance Platform (e-MFP) and the Social Performance Task Force (SPTF) sets guidelines for integrating social measurement into the activity of inclusive financial investors.

2. Strategic partnerships

As part of its collaborative effort, BBVAMF has made agreements with other organizations that drive and multiply its impact, contributing to develop and consolidate the microfinance sector. Partnerships have been put in place to encourage microfinance activity with institutions that include:

Inter-American Development Bank

A memorandum of understanding (MOU) was signed in October 2007 between the Inter-American Development Bank and BBVAMF to work together on activities to improve access to microfinance services in Latin America. The agreement is to partner on programs that drive the microfinance industry as a whole and provide support to microfinance institutions that make it easier for these to expand.

World Bank - IFC

An MOU was signed between the IFC and BBVAMF in May 2008 outlining their strategic microfinance cooperation in Latin America. In November 2016 BBVAMF signed its commitment with the World Bank to the *Universal Financial Access 2020* program, supporting the World Bank in its aim to achieve universal access to financial services by 2020 and has committed to working towards making accounts available to over 2.3 million clients.

State aid from Spain

The partnership with the Department of State for International Cooperation & Ibero-America was signed in September 2014 to join forces in developing actions in the area of microfinance and financial inclusion. This cooperation was reiterated in June 2015 with the signing of a partnership agreement with *Marca España* [Brand Spain].

United Nations Organization

BBVAMFG institutions have worked over the course of these last 10 years with United Nations. Bancamía's agreement with UNEP in Colombia and Microserfin's work in Panama with UNHCR and the WHO are notable examples.

Since April 2015, the United Nations' Sustainable Development Fund (SDG Fund) chose BBVAMF as one of the 13 institutions around the world chosen as founder members of its Private Sector Advisory Group, which provides strategic support to the UN so that, in coordination with the private sector, better results in sustainable development can be achieved. The UN SDG Fund has renewed BBVAMF's membership of this advisory group for 2017-2019.

The partnership with UN Women was formalized in February 2015 with an agreement to promote the development and inclusion of low-income women entrepreneurs in Latin America and the Caribbean. Since 2016 BBVAMF has been involved in the UN Secretary-General's *High-Level Panel on Women's Economic Empowerment*, which has highlighted BBVAMF's experience as a financial inclusion case study.

In July 2016 the United Nations Economic and Social Council (ECOSOC) awarded the BBVA Microfinance Foundation consultative status. BBVAMF may be consulted by the United Nations to provide guidance and recommend actions that contribute to sustainable development.

As a result of its contribution to the SDGs, the United Nations SDG Fund selected BBVAMF as one of the 13 global founding institutions of the *Private Sector Advisory Group*, which gives the UN strategic support

BBVAMF
Sector development

3. Institutional activity in 2016

March

March 2nd
SPTF Social Investor Working Group Meeting *Responsible Finance 2016.*
United States, New York.

March 8th
International Women's Day Forum 2016. Organized by the U.S. Chamber of Commerce Foundation. Corporate Citizenship Center & United Nations Office for Partnerships.
United States, New York.

March 30th
Working session with the Queen of Spain. The President of BBVA presented the 2015 Social Performance Report to H.M. the Queen Letizia.
Spain, Madrid.

April

April 4th
Visit by Rebeca Grynspan, of the General Ibero-American Secretariat (SEGIB), and former United Nations Under-Secretary General, to the HQ of the BBVA Microfinance Foundation, where she gave a lecture.
Spain, Madrid.

May

May 11th
IV Sustainable Finance Forum. Organized by the Business Council for Sustainable Development Turkey (BCSD Turkey), the United Nations Environmental Program (UNEP – FI) and the UN Global Compact in Turkey.
Turkey, Istanbul.

May 16th
Private sector advisory group to the United Nations' SDG Fund.
United States, New York.

May 18th
The BBVAMF 2015 Social Performance Report is presented at the Institute of International Finance.
United States, Washington.

June

June 1st
2016 SPTF Annual Meeting. Case Study Discussions: *Measuring and Reporting Client Outcomes.*
Morocco, Marrakech.

June 15th & 16th
European Development Days (EDD).
Belgium, Brussels.

– Presentation of the BBVAMF 2015 Social Performance Report at the EDD.
– Claudio González-Vega, President of the Board of Trustees of the BBVA Microfinance Foundation at the High Level Panel *Digital technologies' contribution to the Sustainable Development Goals.*

– BBVAMF organizes the session *Technology & innovation in financial inclusion for sustainable development, making a positive impact on the lives of the poor.*

June 20th
Microfinance in Latin America round table.
Spain, Madrid.

July

July 14th
UN High Level Panel on *Women's Economic* Empowerment – 2016 Latin America Regional Consultation.
Costa Rica, San José.

August

August 3rd
BCIE [Central American Bank for Economic Integration] presents the President of the Board of Trustees of BBVAMF, Claudio González-Vega, with the Award for Excellence in Microfinance.
Nicaragua, Managua.

August 9th and 10th
Preliminary meeting of the XI Ibero-American Business Meeting.
Colombia, Cartagena.

August 29th
International Forum on microlending, its impact and regulation.
Costa Rica, San José.

September

September 13th
United Nations Workshop on Sustainable *Development Goals*. Organized in conjunction with the United Nations SDG Fund.
United States, Houston.

September 20th
Impact evaluation in social interventions. Organized by the Business Observatory against Poverty.
Spain, Madrid.

September 21st
Media launch of the 2015 Social Performance Report, chapter on Colombia, at the Colombian HQ of BBVA.
Colombia, Bogotá.

September 22nd
71st United Nations General Assembly High Level Panel on *Women's Economic Empowerment* event, with Secretary-General Ban Ki-moon.
United States, New York.

October

October 27th & 28th
XI Ibero-American Business Forum.
Colombia, Cartagena.

November

November 11th
– Private sector advisory group to the United Nations' SDG Fund.
– Presentation of the UN report: SDGs and the *private sector report.*
United States, New York.

November 17th
Visit by the President of BBVA to Banco de las Microfinanzas - Bancamía, S.A. clients
Colombia, Soacha.

November 17th & 18th
European Microfinance Week 2016. Organized by the European Microfinance Platform (e-MFP).
Luxembourg.

November 28th
BBVAMF signs up to the World Bank initiative *Universal Financial Access 2020.*
United States, Washington.

December

December 6th
Taking Action: One year on from COP21 and the launch of the SDGs conference, organized by CSR Europe.
Belgium, Brussels.

December 12th
Presentation of UN Report *SDGs and the private sector.*
Spain, Madrid.

Photo 1 The President of BBVA, Francisco González and the CEO of BBVAMF, Javier M. Flores, presenting the Social Performance Report to H.M. the Queen of Spain.

Photo 2 Visit and lecture by Rebeca Grynspan, of the SEGIB, to the HQ of the BBVA Microfinance Foundation, with Claudio González-Vega, President of the Board of Trustees of the BBVAMF.

Photo 3 The BBVAMF 2015 Social Performance Report being presented at the Institute of International Finance.

Photo 4 Claudio González-Vega, President of the Board of Trustees of the BBVA Microfinance Foundation taking part in the High Level Panel *Digital technologies' contribution to the Sustainable Development Goals* during the European Development Days.

Photo 5 Javier M. Flores speaking at the SDGF Report Launch ©David Ito-7615.

Photo 6 The President of BBVA, Francisco González, and the CEO of BBVAMF, Javier M. Flores, with children at the playschool owned by BBVAMFG client Norma Ordoñez, during one of his visits to Bancamía clients in Soacha.

4. Outstanding acknowledgments

BBVA Microfinance Foundation

- The United Nations Economic and Social Council (ECOSOC) awarded the BBVA Microfinance Foundation (BBVAMF) *consultative status* (2016).

- The methodology of BBVAMF and its group of microfinance institutions, Responsible Productive Finance, was showcased as a case study in the report *Universality and SDGs: a business perspective*, published by the United Nations' Sustainable Development Goals (SDG) Fund.

- *The Corporate Governance Code* was recognized as one of the *10 best transparency and good governance initiatives in 2015-2016* by the Fundación Compromiso y Transparencia [Commitment & Transparency Foundation] (2016).

- BBVAMF's social measurement system was recognized as best practice in the report *Business and the UN. Working together towards the SDGs: A Framework for Action.* University of Harvard Kennedy School, commissioned by the UN's SDG-F (2015).

- The UN's Sustainable Development Goals Fund chose BBVAMF, for its contribution to SDGs , as a member of its *Private Sector Advisory Group* (2015).

- United Nations *Social Investment Pioneer* Award (2012).

Bancamía (Colombia)

- *Ethics Code among the 10 Best in the World*, Smart Campaign (2012).

- *Best in Risk Quality and highest number of microcredit beneficiaries*, Colombia's Securities Commission National Fund Award (2010).

- *Transparency Certificate, Five Diamonds*, Mix Market (2010).

Financiera Confianza (Peru)

- Award for the most innovative institution, for its *Ahorro para Todos [Savings for All]* program, Citi Microfinance Award (2015).

- *Nº1 Peruvian institution in reaching micro-enterprises* in the overall classification, *Microfinance Americas: the 100 best in 2014* ranking, Mix Market, BID-FOMIN.

- Chosen one of *The 300 Best companies in Peru and Latin America in 2013* by the magazine América Economía.

- *Best Microfinance Institution in Latin America and the Caribbean 2011* in the *Microfinance Americas: the 100 best in 2011* ranking, Mix Market, BID-FOMIN.

Banco Adopem (Dominican Republic)

- *Award for Excellence in Leadership 2016*, Women's World Banking (WWB).

- *Argentarium 2016 Award* as the best financial institution in the Dominican Republic, for its work in financial education and banking inclusion in 2015.

- Smart Campaign 2015 certification.

- Only institution in the microfinance sector with the top financial and social rating: ALFA MAS (a+) with Stable trend, MicroRate (2015).

- Four and a half star (4.5) with stable outlook social rating, with social outcome and social commitment in the *Excellent* range, MicroRate (2015).

- *Five Diamond transparency certification*, Mix Market (2013).

- Citi Award for the *Most innovative microfinance institution of the year* (2013).

- *Recognition for Leadership 2013*, Women's World Banking (WWB).

- *Best Microfinance institution in Latin America and the Caribbean, 2012*, Mix Market, BID-FOMIN.

- *Best Microfinance institution in Latin America and the Caribbean, 2010*, Mix Market, BID-FOMIN.

- *Institution with best reach, 2009*, Mix Market, BID-FOMIN.

Fondo Esperanza (Chile)

- *Financial Education 2016 Award* for *Contribution to Financial Inclusion*, given by the Banking & Finance Authority (SBIF) and the University of Chile, for its *Segmentos Excluidos [Excluded Segments]* program.

- *Five Diamonds transparency certification*, for quality and reliability of financial information, Mix Market (2008).

Emprende (Chile)

- *Five Diamonds transparency certification*, for quality and reliability of financial information, Mix Market.

Microserfin (Panama)

- *APC award for satisfaction, updating and compliance*, Asociación Panameña de Crédito [Panamanian Credit Association] (2015).

- *Five Diamonds transparency certification*, for quality and reliability of financial information, Mix Market (2014).

- *APC award for updating*, Asociación Panameña de Crédito (2014).

- Only Panamanian company in the overall ranking *Microfinance in the Americas: the 100 best in 2014* (Mix Market, BID-FOMIN) for the third consecutive year.

- *APC award for satisfaction, updating and compliance*, Asociación Panameña de Crédito (2013).■

Aligned with United Nations' SDGs

The 2030 Agenda for Sustainable Development sets financial inclusion as a key goal for the member countries of the United Nations, and, to date, over 60 governments across the world have set financial inclusion as a formal goal. BBVA Microfinance Foundation (BBVAMF), using Responsible Productive Finance is a bold commitment to reduce poverty.

The Sustainable Development Goals (SDGs) are an ambitious plan of action for people, the planet and prosperity that define sustainable development priorities worldwide for 2030. They are universal, applicable to all nations and people, and a call to action to governments, civil society and the private sector, to put an end to poverty and promote a decent life with opportunities for all. They are wide-ranging, with 17 goals and 169 targets, including putting an end to poverty and hunger, guaranteeing sustainable production and consumption and promoting inclusive, peaceful societies.

These goals have an overarching connection with one another. For example, progress on reducing poverty cannot be achieved without improving food security and reducing inequality. One goal leads to another, thus contributing to improving the whole. Companies can make a positive contribution to a large number of sustainable development goals.

Financial inclusion and microfinance play a key role in reducing poverty and in ensuring economic and social development. The 2030 Development Agenda acknowledges this role, including access to financial services, in several of its SDGs. The agenda indicates how important it is to ensure access to financial services for everyone, emphasizing in particular the importance of access for women, who have lower rates of financial inclusion.

BBVAMF is committed to creating measurable impact and is aligned with the SDGs, in particular with the challenge of ending poverty, the goal with which we most identify.

Impact of BBVAMFG's activity and its overlap with SDGs (a)

		Goal	Impact
1	NO POVERTY	End poverty in all its forms everywhere.	Direct
2	ZERO HUNGER	End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	Indirect
3	GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages.	Indirect
4	QUALITY EDUCATION	Ensure inclusive and quality education for all and promote lifelong learning.	Direct
5	GENDER EQUALITY	Achieve gender equality and empower all women and girls.	Direct
8	DECENT WORK AND ECONOMIC GROWTH	Promote inclusive and sustainable economic growth, employment and decent work for all.	Direct
10	REDUCED INEQUALITIES	Reduce inequality within and among countries.	Indirect
17	PARTNERSHIPS FOR THE GOALS	Revitalize the global partnership for sustainable development.	Direct

(a) United Nations' Sustainable Development Goals. The numbering of the goals is the United Nations' own. http://www.un.org/sustainabledevelopment/es/globalpartnerships/

BBVAMF
Sustainable Development Goals

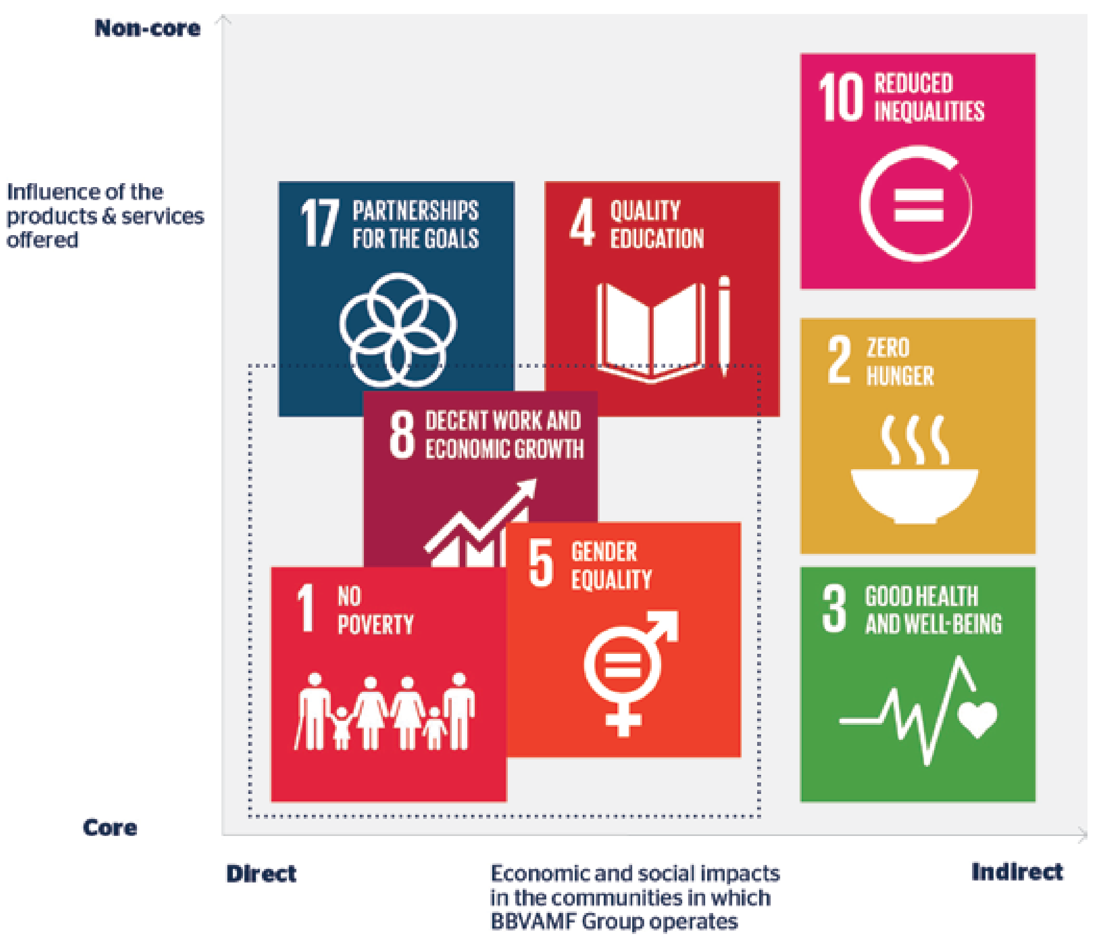
SDGs and BBVAMF

Since it was set up, the BBVA Microfinance Foundation Group (BBVAMFG), with its mission to promote economic and social development through Responsible Productive Finance, has been entirely in alignment with the SDGs[1]. In general terms, BBVAMF Group's activity has an impact, to differing degrees, on eight SDGs; on five of them directly, and indirectly on a further three.

SDGs Map

BBVAMF Group's activity works towards SDGs on two levels: the impact (direct/indirect) and the influence the Group has (core vs. non-core), that is, its capacity to improve and extend that impact.

SDGs in the area of BBVAMFG's activity (b)



Source: BBVAMF.

SDGs as they relate to BBVAMFG indicators

BBVAMFG's activity serves specific goals, following its strategic lines of action and aligned with its mission.

Direct contribution to society of BBVAMFG's core activity (c)

1 Serving *vulnerable* /low-income clients

c. 600,000 vulnerable clients.
27% of clients classified as *poor*; 60% are women, 19% are young people under 30 and 11% are over 60 years old[2].

The BBVAMF Group has a client base of 1.8 million, of whom 901,624 are credit clients. Of these, 77% were *vulnerable* as of 12.31.2016. 81% of new clients in 2016 are *vulnerable* and live on an average of USD 3.9 person/day. BBVAMFG's purpose is to continue serving the disadvantaged and on average, over the last five years, 85% of clients were *vulnerable* when they signed up with their institution.

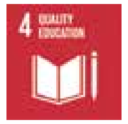
2 Staying with them as they develop

Their net incomes grow by 18% yearly.
Extremely poor clients escape poverty after two or three cycles and *poor* clients after one[3].

Client sales, net incomes and assets grow at sustained rates of 18%, 18% and 26% a year respectively (CAGR)[4]. On average, the segment of clients classified as *poor* at the outset falls by 38%[5] after two years with Group institutions.

3 Influencing their training

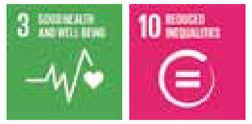
353,868 potential clients receive training.
2.4% have raised their educational level after two years[6].



Indirect contribution to society of BBVAMFG's core activity

4 With an impact on their local community

182,790 jobs created.
Bearing in mind that only 14% of clients have one or more employees[7].



Driving their communities' economy, by supporting small local companies. For example, 8.5% make home improvements after two years[8].

Other Group activities with an influence on several SDGs (d)

17 PARTNERSHIPS FOR THE GOALS 10 REDUCED INEQUALITIES

Governance
Quarterly publication of the digital magazine *Progreso*, with the most important news on legislation and regulations affecting the microfinance sector, and new developments in international corporate governance, to support the sector's sustainable development.

- Compilation of the corporate governance code, creating a single model for management and relationship processes across Group institutions, in order to reinforce our commitment to generating inclusive social impact, long-term sustainability, value creation and reputation.

- Participation in training workshops, events and work sessions to promote corporate governance in microfinance institutions (outside the Group).

Stakeholders/Partnerships
- Partnerships with multilateral and bilateral bodies (such as the United Nations Organization, the World Bank, Inter-American Development Bank, CAF – Development Bank of Latin America and Spain's Department of State for International Cooperation and Ibero-America).

- Partnerships with non-profit organizations (particularly local NGOs).

- Collaboration with universities through institutional activity, spreading the word on SDGs and sharing case studies with different players.

- For more detail, *see Sector Development chapter, Strategic Partnerships section.*

Source: BBVAMFG institutions. BBVAMF calculations.

The social and economic goals defined by BBVAMF were already aligned with the SDGs before the latter were formalized and it is part of our *raison d´être.*

With the creation of the new 2030 Agenda for Sustainable Development, BBVAMF was invited to be a member of the United Nations Sustainable Development Goals Fund – Private Sector Advisory Group, together with another 13 private sector organizations worldwide. BBVAMF has participated with the United Nations in compiling two reports on work the private sector has done towards achieving the new goals. BBVAMF Group's good practice examples have been cited in both reports, presented at the UN HQ in 2015 and 2016, where they appear as examples of responsible productive finance.

Conclusion

The BBVAMF Group serves the needs of microentrepreneurs, creating economic and social value sustainably, for them and for the communities where they operate. The Group has a footprint in five Latin American countries and serves over 1.8 million people, of whom 901,624 are credit clients. Of these, 77% are *vulnerable*, with average incomes of less than USD 4.2 a day. The Group also stays with its clients as they develop, monitoring the rise of the businesses in the medium term and the improvement in other indirect socioeconomic variables, such as housing and education.

BBVAMF Group's work shows that tackling development challenges with humility, but with rigor, leads to an improved diagnosis of the problems and the design of better solutions. SDGs provide an excellent roadmap to align the Group's activity with that of other actors because, if we are to meet these goals and leave the planet in a better state for future generations, we need the cooperation of governments, civil society, the private sector and citizens in equal measure.■

Notes (1) Conclusions consistent with earlier reports: *El Sector Privado ante los ODSs. Guía práctica para la Acción* [The private sector and SDGs. Practical Guide for Action] (pub. Pacto Mundial, Red Española), and the *SDG Industry Matrix - Financial Services* (pub. UN, KPMG). (2) *Per capita* household net income is estimated by dividing business net income by the number of household members. Poverty lines are set by each country's official bodies (differentiating between rural and urban environments). *Vulnerable* clients are those whose *per capita* net income is below the threshold obtained by multiplying the poverty line by three. (3) Clients served between 2011 and 12.31.2016, classified by their economic *vulnerability* at the outset on the first disbursement. (4) Compound annual growth rate. Data on clients current as of 12.31.2016, and who have received a disbursement in the previous 12 months. The compound annual growth rate (CAGR) is calculated for cohorts 2011-2016, from the situation at the outset (data for their cohort year) and the current situation (latest update) as of 12.31.2016. (5) 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 included in the exit from poverty figures. (6) Proportion of clients current as of 12.31.2016, from each cohort (2011-2015) who have increased their educational level. Available for Bancamia, Banco Adopem and Fondo Esperanza. (7) Data for clients current as of 12.31.2016, extrapolated to include the total portfolio. (8) Proportion of clients current as of 12.31.16 for each cohort (2011-2015), who have improved their housing (become homeowners), made home improvements (eg. sanitation, fuel), or increased the number of rooms. Available for all institutions apart from Emprende.

Unequal growth

The slowdown of activity in Latin America resulted in negative growth of 1.4% in 2016, together with an uptick in inflation. The economic recession has also been conducive to unemployment, with 5 million people newly unemployed. The number of poor people hit 175 million, meanwhile 45 million adults have accessed the financial system for the first time.

The world economy in 2016 was characterized by financial turbulence, political surprises and shaky growth in many parts of the world; nevertheless, overall, growth continued, at a rate of 3%. Developing economies grew by 3.8% and advanced economies by 1.6%[1].

Against this backdrop of moderate recovery, trade has been weak, posting its lowest rate of growth since 2009, at 2%, the second lowest in the last 20 years. The drop in the price of raw materials hit bottom at the beginning of the year and since then recovered part of the reverse suffered in 2015, but has not returned to pre-correction levels.

Better relative performance in the price of raw materials, together with a relaxing in world financial conditions has been reflected in a recovery of inward capital flows to emerging economies. Net financial flows received by Latin America in 2016, although lower than the previous year, started pushing back in the first quarter, enabling the current account deficit to be covered and an improvement in the aggregate level of international reserves in the region. This environment has allowed national currencies, in particular those of raw material exporters, to appreciate with respect to the minimums of recent years.

The region is still very heterogeneous in terms of growth. Activity in Latin America as a whole shrank to the end of 2016 by 1.4%[2], but growth was only negative in seven countries, whereas in 25 activity has increased. Nevertheless, the size of the countries in recession, most of them in Mercosur, has resulted in a fall of 4.2% in their overall GDP, representing 57% of the region's total GDP[3]. This is in spite of the remaining countries, taken as a whole, posting 2.3% growth. In BBVA Microfinance Foundation's footprint (Colombia, Chile, Peru, Panama and the Dominican Republic) growth has averaged at 3.2%.

The 2.2% drop in domestic demand has been the main reason for the aggregate contraction in the Latin American economy. Private consumption fell by 1.1%, public consumption by 1.2% and investment by 7.3%. Nevertheless, this performance is explained by the countries in South America that have suffered a 3.1% contraction in domestic demand, driven by the Mercosur countries.

The fall in construction, the production in the industrial sector, together with the shortfall in services, particularly in trade, have been the principal supply-side factors accounting for the behavior of the economy in 2016, taken with lower investment in machinery and equipment.

Real GDP growth

Source: IMF. BBVAMF Research estimates.

Despite the fall in activity, there has been a sharp uptick in the region's inflation, conditioned by the performance of Argentina and Venezuela, both of whose countries' economic activities are contracting sharply. The former is in the process of an economic correction and of bringing its pricing statistics back to normal; the latter is immersed in hyperinflation. If we exclude these two countries, the region's inflation comes in at 5.8%[3].

Most countries are experiencing improvement in inflation terms, particularly those that export raw materials, after the brusque depreciation of their currencies in 2015, on top of major weather events that year. This improvement mostly took place in the second half of the year, enabling central banks of the major economies to begin a round of lowering their monetary policy rates.

GDP has grown in 25 countries in the region; however, the GDP of the seven countries in recession, representing 57% of total GDP in the region, has dropped by 4.2%.

Labor market

Economic performance in the region had an impact on deteriorating unemployment creation, in both quantity and quality. The unemployment rate rose by 1.7%, to 8.3%[4], that is, around 5.1 million newly unemployed, bringing the total by the end of the year to approximately 25 million. Furthermore, the lower quality of employment can be seen in an average drop of real wages.

These results have been strongly influenced by the results in Brazil, which posted an unemployment rate of close to 11.5%, a rise of 3.2 percentage points (p.p.), conditioning the average rate for South America, which spiked from 8.2% in 2015 to 10.7% in 2016, given that Brazil accounts for about 40% of the economically active population of Latin America. In general terms, however, the rate of unemployment rose in 68% of those countries in the region that reported information[5].

The slowdown in economic activity was reflected in a 60 b.p. (base point) fall in the employment rate, which slipped from 57.3% in 2015, to 56.7% in 2016, with the rate of labour force participation holding steady at 61.6%. These averages are the sign of a series of combinations: countries where there has been a reduction in the rate of employment and, at the same time, an increase in the rate of participation; others, in which there have been reductions in the employment rate that were not offset by the drop in the participation rate; countries in which there has been an increase in the employment rate, but in which this has been offset by a greater proportional rise in the participation rate; others, in which there have been significant increases in the employment rates, which offset the increase in the participation rate and, to a lesser degree, by a greater reduction in the participation rate than the reduction in the employment rate.

There has been a drop in the region of around 4.5 p.p. in manufacturing industry employment, of 1.3 p.p. in agriculture and 2.4 p.p. in financial services and services to companies; these have been offset by improvements in construction, trade, transport and other services. In general terms, there has been a shake-up in the composition of employment, moving to "lower quality" employment, associated in some cases with working in the informal economy.

In the BBVAMF footprint, the unemployment rate was 6.4% in 2016, a rise of 20 b.p. against the final figure for 2015.

In BBVAMF's footprint, the unemployment rate posted at 6.4% in 2016, an increase of 20 b.p. from the end of 2015. Unemployment has risen in all countries apart from the Dominican Republic[6]. The average participation rate in these countries was 62.8%, an increase of 50 b.p., while the employment rate has risen by 30 b.p., closing the year at 58.8%.

Poverty and inequality

The worst performance of the region's economy in recent years[7] has reversed the improvements achieved over the last five years in terms of the numbers living in poverty; during this time there has been a rise in income and, as a result, an improvement in most countries, where the poverty gap has narrowed and its intensity diminished.

This reversal has seen increases of 1 and 0.6 p.p. in the poverty and extreme poverty rates, which stand now at 29.2% and 12.4%, respectively. This implies that around 175 million people are income-poor, of whom 75 million are in a situation of extreme poverty.

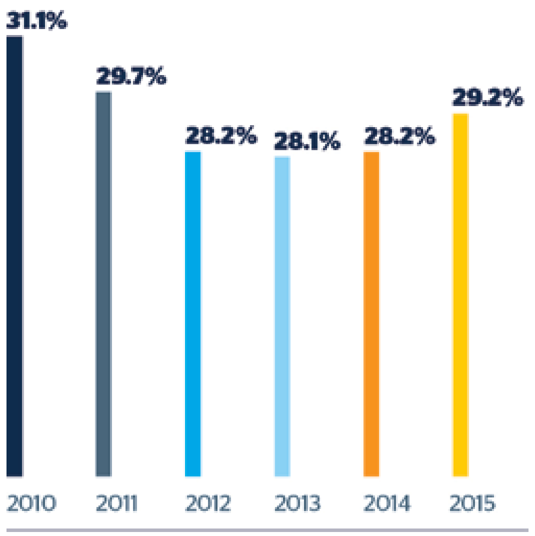
Increased poverty in Latin America is caused by the combination of growth and the distributive effect. Lower income growth is responsible, on average, for 90% of the total accumulated variation, with the distribution effect explaining the remaining 10%.

This has taken place in a context of a reduction in total labor revenue flowing into poor households, mainly due to the fall in income per employed worker, associated with an increase in unemployment and the re-shaping of employment into lower quality jobs, as part of the recession affecting the region.

Financial inclusion

The number of people in the region with a bank account in the financial system grew by 45 million between 2011 and 2014[8]. In 2011, 39% of the adult population used banking services, which in turn meant that 255 million adults did not. Three years later, 210 million adults, 49% of the total, still do not have an account. This is an 18% reduction in the total number of those excluded from the financial system.

Poverty (% total population)



Source: Cepal.

Latin America has the highest rate of financial exclusion in the world after the Middle East and Sub-Saharan Africa; it has only 54% of the average inclusion rates for OECD countries. Nevertheless, in relative terms, it has the highest female participation rates for women in the financial system, after OECD countries, East Asia and the Pacific.

In rural areas, 46% of adults have an account in a financial institution, so the gap between them and those living in urban environments is 6%. This suggests that among those with bank accounts the geographical factor is not a major reason for differentiation[5].

The main cause for differentiation in the region's financial inclusion is income level. In Latin America, 58% of those in higher income brackets (60% of the higher percentiles) have access to the financial system, whereas this is true of only 41% of those in lower brackets (the 40% lowest), a participation gap of 17 p.p.

Level of schooling is another important factor. 56% of adults with secondary education or higher are financially included, while this is the case with only 43% of those with primary education or less, making the gap one of 13%.

Turning to products, 32% of adults applied for a loan in the past year, but only 11% did so from a formal financial institution, that is, only 34% of those needing financing.

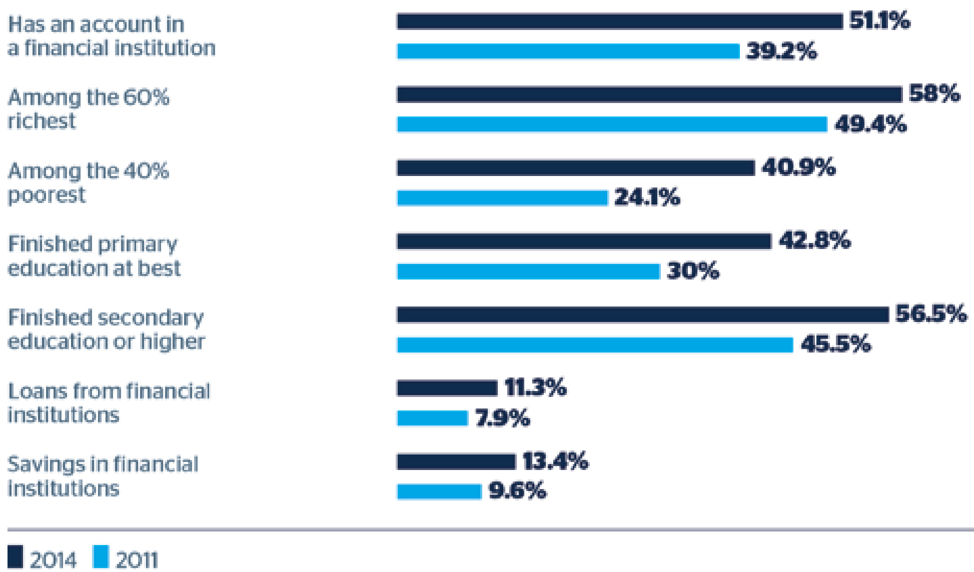
We should point out here that Latin America is the region in emerging markets where the fewest people in relative terms have applied for a loan, but where formal institutions are most used.

Latin America is the region in the world with the highest relative participation of women in the financial system.

Only 18% of those requesting a loan, that is, 6% of adults, did so to begin, expand or operate a productive activity; mostly the funds were used for medical expenses, followed by education. 40% of adults reported having made some kind of saving in the past year, but only 13% saved through a formal financial institution. After OECD countries, East Asia and the Pacific, it is the region with the highest relative participation in using financial institutions to deposit savings, at 33%, a similar figure to that for loans.

The use of cash continues to be very extensive throughout the region. 50% receive their wages in cash, 38% receive it by bank transfer to their account and withdraw it all at once, while 96% pay for services and invoices in cash. In terms of use, 17% make no transactions throughout the month and only 22% of adults make more than three transactions a month, compared to more developed countries, where the percentage rises to 65%.■

Financial inclusion (% adults)



Source: Global Findex (Global Financial Inclusion), World Bank.

Notes (1) BBVAMF Research estimates. (2) In 2016 purchasing power parity. (3) BBVAMF Research. (4) ILO. (5) BVAMF Research. (6) Cepal, with estimates to 2015. (7) Global Findex (Global Financial Inclusion), World Bank. (8) Latest figure available published in April 2015.