

Microserfin **Panama**

Social Performance
Report 2016



**Measuring
what really
matters**

Table of contents

“We are merely peasants, sowing seeds of faith on an uncertain path of events, shared experiences and dreams of our Latin American land”.

Rubén Blades

Microserfin Description 422 Management team and board 425	Measuring 2016 Social performance results Our clients 428 Our clients' businesses 432 Our clients' development 434 What really matters Stories of achievement Silvana 444 Víctor Cervelio 448 Heydi Alonso 452	Special projects <i>Casafin</i> 454 Macroeconomic context Panama 460
--	---	---

Towards greater equality and less poverty

Microserfin has a team of over 240 professionals working to reduce the levels of poverty and vulnerability of their clients all over the country, but especially in rural areas. To this end, in November 2016 Microserfin signed the 'National Entrepreneurial Pact' to boost the country's economic development, levels of equality and poverty reduction.

Soluciones de Microfinanzas S.A. (Microserfin) has a strong track record in Panama. Its key purpose is to improve the living standards of low-income entrepreneurs and their families, through Responsible Productive Finance. A team of 243 professionals drives the organization's commitment every day to strengthening its clients' potential, reducing their levels of poverty and vulnerability and sowing prosperity in disadvantaged population segments.

The institution has nationwide coverage, with particular emphasis on rural areas, where Microserfin remains true to its promise to serve entrepreneurs, whom it guides at the outset and during the expansion of their farming businesses, with personalized advice from its specialist officers.

Microserfin is a member of Panama's *Strategic Entrepreneurial Board*, which brings together the country's key public and private sector and academic bodies to promote the right conditions for stimulating enterprise in the country. This *Strategic Board* reports to the Panamanian Government's Micro, Small & Medium Enterprise Authority (AMPYME), and develops programs for these entrepreneurs and businesspeople.

In 2016 Microserfin signed the *National Entrepreneurial Pact*, to boost the country's economic development, equality and poverty reduction. With the implementation of this nationwide pact, Microserfin is reaffirming its commitment to improve standards of living for low-income entrepreneurs and their families.



Microserfin received an award at the IX APC Awards, held by the Panamanian Credit Association (APC) every year, recognizing the financial and commercial bodies that best, and most thoroughly and accurately report the information necessary for the benefit of the system, the country's economy and their clients. Microserfin was awarded the prize in the Updating category, from 100 institutions that had been nominated.

In 2016, in line with its vision of generating opportunities for social and economic development using productive and sustainable microfinance services, Microserfin originated around USD 21.34 mn in productive credits by means of over 14,486 credit transactions, as a palpable demonstration of its commitment to support its clients'

Microserfin received an award at the IX APC Awards held by the Panamanian Credit Association (APC) in the Updating category, from among 100 nominated institutions.

development. In the same year the institution also improved its service network for entrepreneurs, opening a new office in Sabanitas Colón, bringing the total number of offices in the country up to 11.■

Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)	N° of employees
25,523,141	243
Amount disbursed in 2016 (USD)	N° of offices
21,337,742	11
N° of disbursements in 2016	People receiving financial education
14,486	6,227
Average disbursement in 2016 (USD)	
1,473	

Management team and board

Management team		Board
Luis Germán Linares General Manager	Arquímedes Rivera Senior Production Manager	José Antonio Colomer President
Jacqueline Rodríguez Transformation & Innovation Manager	Ericka Pastore Human Talent Manager	Arturo Gerbaud Member and Secretary
Hector Ángel Distribution Manager	Onilda Rodríguez Audit Manager	Margarita Correa Member
Sandra Soler Senior Control Manager	Stephanie Carneiro Legal department	Mercedes Canalda Member
Rosalía Espinales Compliance Manager		Gissele González Member
Sebastián Acevedo Senior Administration & Finance Manager		

Source: Microserfin. BBVAMF calculations.

Measuring

At the end of 2016, 71% of clients served were classified as *vulnerable*. Client sales volumes remained stable, in general, with positive growth rates that were higher than in previous years. As clients become less *vulnerable*, there are efficiency and cost gains, improving margins.

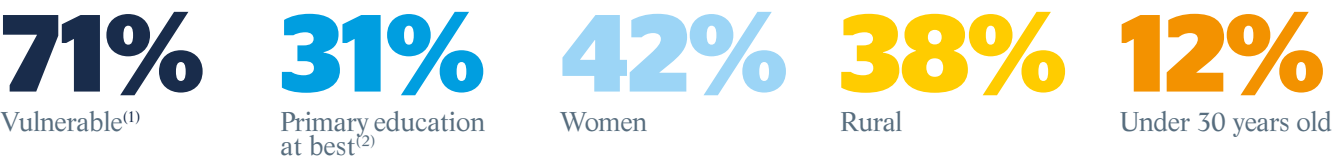


Total clients
17,084
New credit clients
5,506

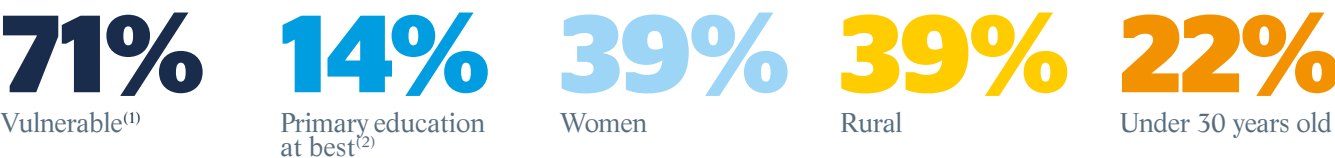
(1) According to the Economics & Finance Ministry's poverty line (differentiating between rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line 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



New credit clients 2016



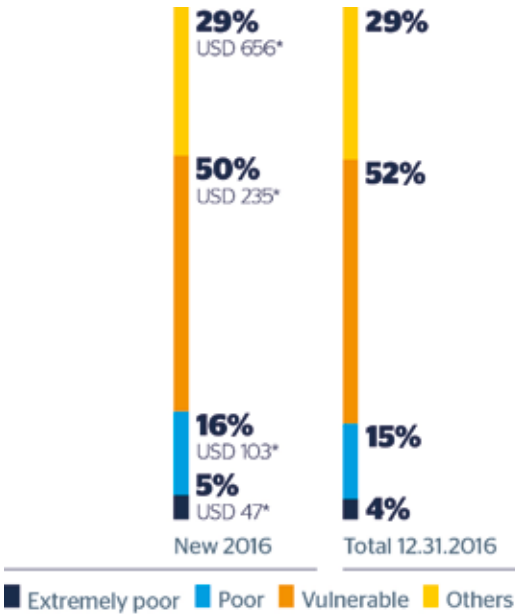
Our clients and our scale

Microserfin strives to become a benchmark in the medium term in serving low-income entrepreneurs in Panama, in both the urban and rural environments. Currently 38% of its clients come from the latter segment.



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

Clients' economic vulnerability (1)

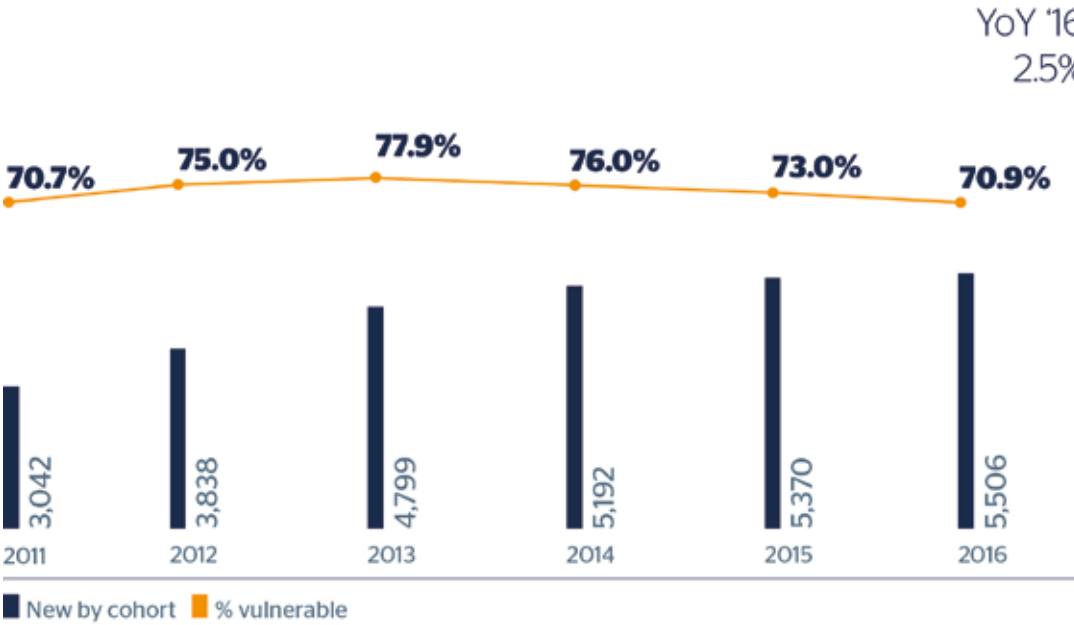


* Monthly net income per capita.
Source: Microserfin, BBVAMF calculations.

Clients classified as **vulnerable** are earning an average of **USD 6.4 per person/day** from their microenterprises.

- In a slowing economic environment (2016 GDP 5.8%; 2015 GDP 5.4%), the rate at which new clients are signed up has eased (growing by 2.5% in 2016 compared to an average between 2011 and 2015 of 16%) and it is difficult to maintain the proportion of *vulnerable* clients. 71% of new clients served are *vulnerable*.

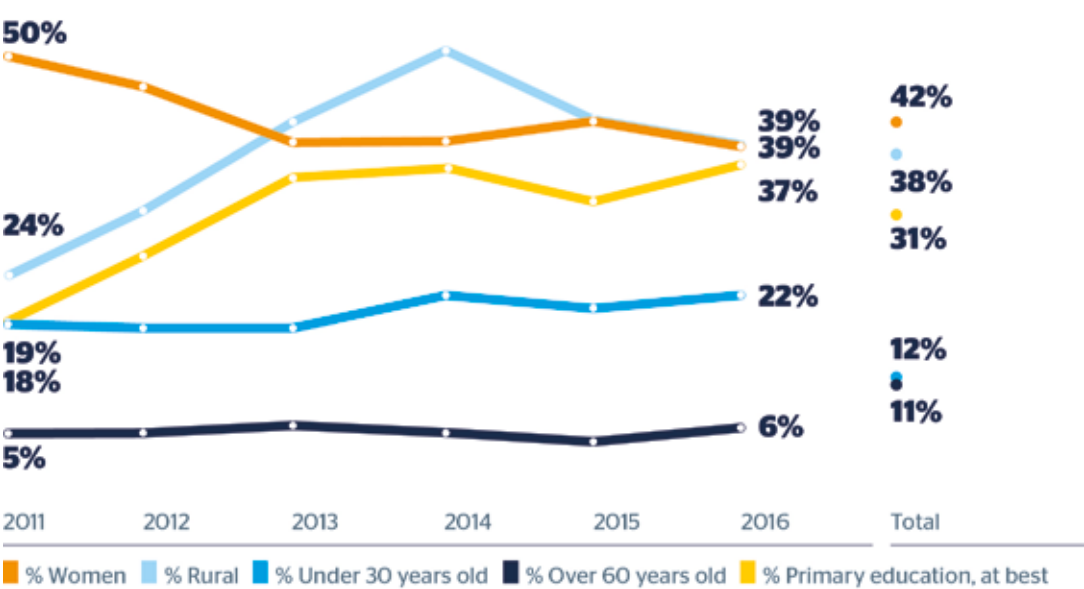
New credit clients (2)



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

Source: Microserfin, BBVAMF calculations.

Profile of our clients (3)



Source: Microserfin. BBVAMF calculations.

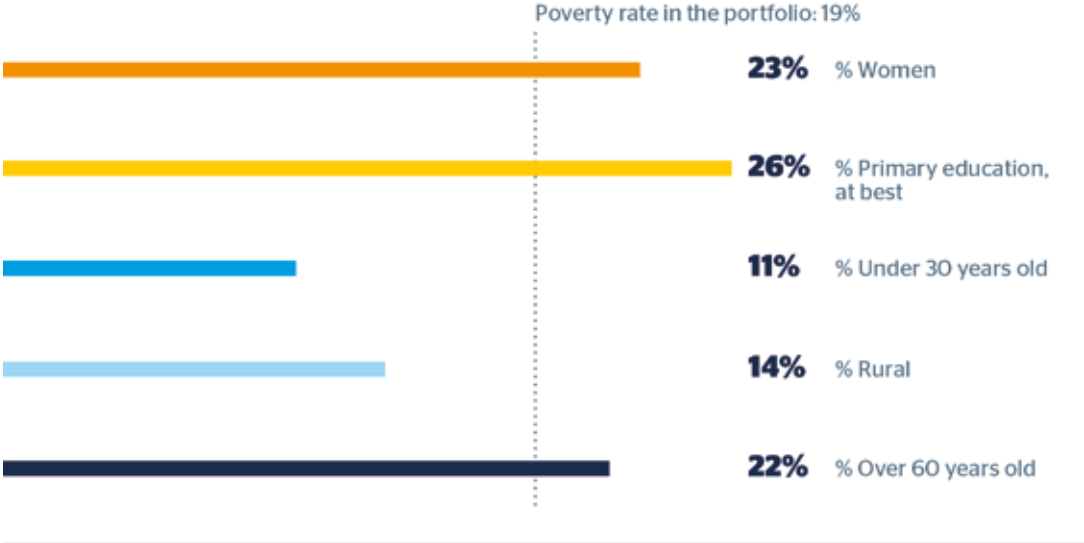
In terms of clients' vulnerability profile, **fewer women and clients in the rural environment were signed up in 2016** although penetration of the latter segment, the rural, continues to be one of the strongest in the Group, together with Bancamía (47%) and Banco Adopem (43%).

It is noticeable that older people (over 60) are poorer, on balance, than clients in the portfolio as a whole (which is not the case in other institutions), perhaps because of the lack of social cover.

- There is higher *poverty* among clients who only have primary education (segment in which client enrollment increased in 2016) and among women.

- Despite the higher poverty rate in rural areas, fewer Microserfin clients in these environments are *poor* than in urban areas (14% vs. 22%).
- The average sales figures of clients signed up over the last three years has stabilized, after the change in focus (2011-2013) to originating loans with more *vulnerable* clients, with smaller enterprises.
- The average disbursement has grown faster than sales and, as such, the weight of the installment against sales has increased a fraction, remaining at between 5%-6%, a small burden compared to other markets.

Poverty profile (4)



Source: Microserfin. BBVAMF calculations.

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



Source: Microserfin. BBVAMF calculations.

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

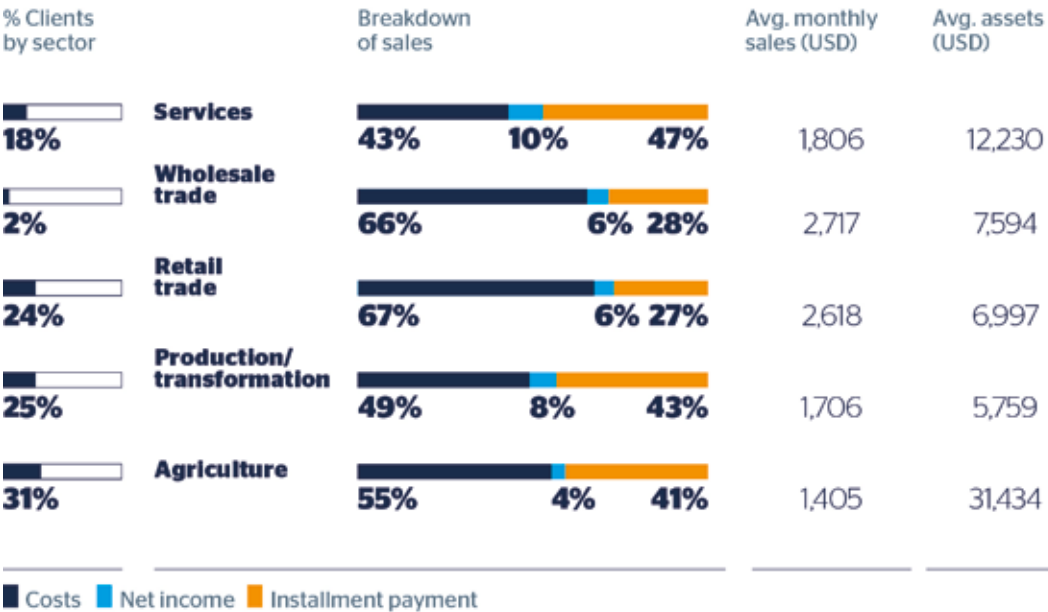
(4) Clients current as of 12.31.2016.
(5) New clients (without previous loans) signed up during the year.
• Average disbursement, calculated as the average first disbursement for new clients each year.
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

Our clients' businesses

Microserfin is an institution serving a wide range of sectors; it has a particular specialization in *agriculture* (31%), which concentrates those of its clients who are classified as *poor* (23%).



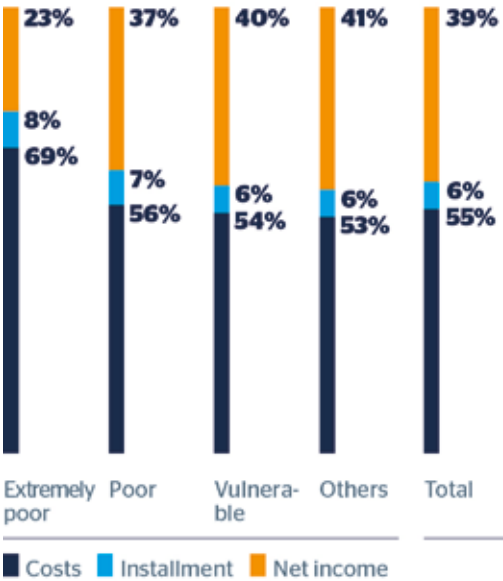
Average margins, sales and assets, by sector (6)



Source: Microserfin. BBVAMF calculations.

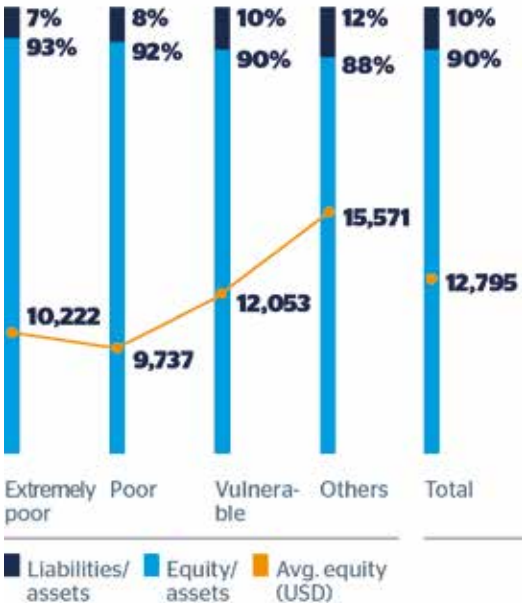
- Microserfin clients work mainly in *agriculture* (this sector has grown since 2015), *production/transformation* and *retail trade*, but a wide range of sectors are represented.
- *Retail trade* offers low margins but also low asset levels, so barriers to entry are correspondingly low. Clients probably sell products with low added value (small margins) and so need high turnovers to make a profit.
- In the *agriculture* segment, the institution serves clients with high levels of assets, compared to the rest, but small net incomes (although the margins are high, the sales level is low).
- As *vulnerability* lessens, efficiency rises and costs drop, which improves the margins: the net income over sales of clients classified as *others* is nearly double that of clients classified as *extremely poor*.
- The relative weighting of the installment payment has remained fairly stable, with a difference of just two percentage points between the most and the least *vulnerable* clients.
- Microenterprises led by *non-vulnerable* clients are more highly leveraged, with liabilities representing 12% of total assets (*others*).

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



Source: Microserfin. BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Microserfin. BBVAMF calculations.

(6) Clients current as of 12.31.2016

(7 & 8) Clients current as of 12.31.2016.

Our clients' development

As well as posting positive average growth rates in sales, net incomes and assets, those clients who continue their partnership with Microserfin generate new job positions in their microenterprises.



- Client retention is fairly stable across cohorts, with an average of 70% staying after a year. As to long-term retention rates, there is a slight improvement between cohorts: after 3 years, 31% of clients are still with the institution vs. 29% on average at the end of 2015.
- Recurrence figures show that half of clients who take out one loan come back for a second.
- After the first cycle, many clients are lost (clients who only ever take out one loan); from the second cycle onwards, more than half the clients stay with the institution (50% of original clients receive a second disbursement, 31% stay for a third loan, in other words, 62% of clients taking a second loan also take a third) and apply for another loan.

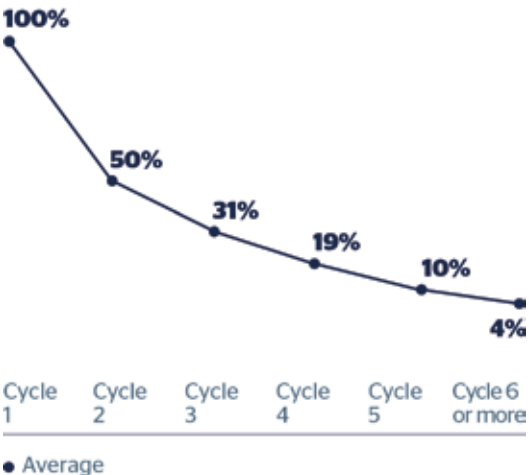
(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Credit client retention (by cohort) (9)



Source: Microserfin. BBVAMF calculations.

Credit client recurrence (10)



Source: Microserfin. BBVAMF calculations.

- Clients classified at the outset as *extremely poor* enjoy, on average, strong growth in their first cycle, with their relative average *per capita* net income rising from 0.38 to 0.69 (+ 81%). On average, after four cycles, they have not broken through the poverty line.
- Clients classified as *poor* need on average two credit cycles to overcome poverty and their growth is fairly sustained.
- *Vulnerable* clients grow more slowly; after four cycles they have not reached the *non-vulnerable* bracket (three times the poverty line).

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 372 days, between cycle two and three is 385 days; between cycle three and four is 373 days, between cycle four and five is 341 days and between cycle five and six is 273 days.

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

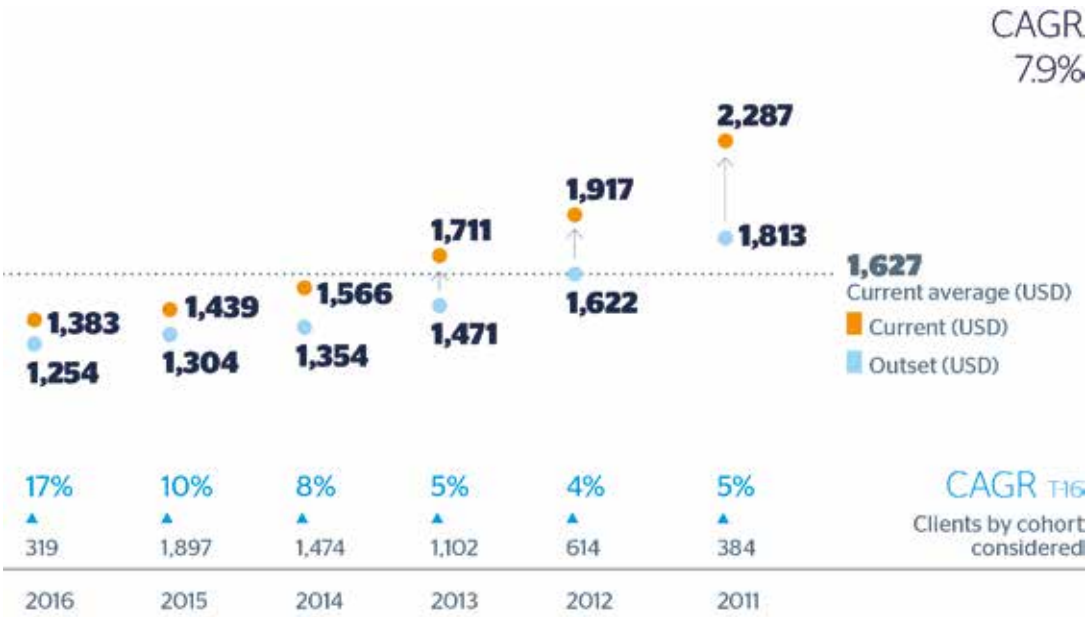
Per capita net income relative to poverty line (11)



Source: Microserfin. BBVAMF calculations.

- Clients expand in terms of sales, net incomes and assets. (Note: CPI is 1.5% and the economy is growing at 5.4%).
- The sales and asset figures at the outset and at the end have been sliding a little in the last three years, partly because of the focus on more *vulnerable* clients; nevertheless, net incomes are fairly stable, showing that efficiency has improved.
- The growth rate of assets is higher than that of sales and net income; this suggests the money is being reinvested in the business.
- In the years when more *agriculture* clients are signed up, the portfolio assets at the outset are higher (2013-2015), with slightly lower growth rates because of the relative asset/growth proportion.
- In total, average assets have increased from USD 13,946 in 2015 to USD 15,460 in 2016.

Average monthly sales (by cohort) USD (12)



Source: Microserfin, BBVAMF calculations.

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

Average monthly net incomes (by cohort) USD (13)



Source: Microserfin, BBVAMF calculations.

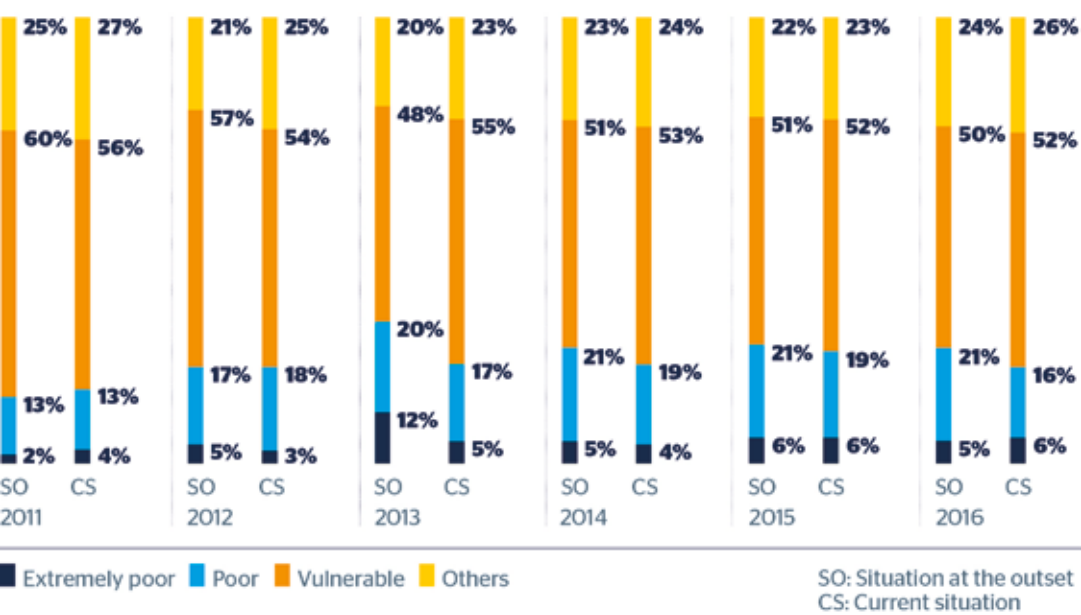
Average assets (by cohort) USD (14)



Source: Microserfin, BBVAMF calculations.

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

Change in vulnerability levels (15)



Source: Microserfin. BBVAMF calculations.

During the second year, 29% of clients manage to break through the poverty line and 48% do so the following year. However, a high proportion of clients do not succeed in stabilizing their incomes and fall back below the poverty line.

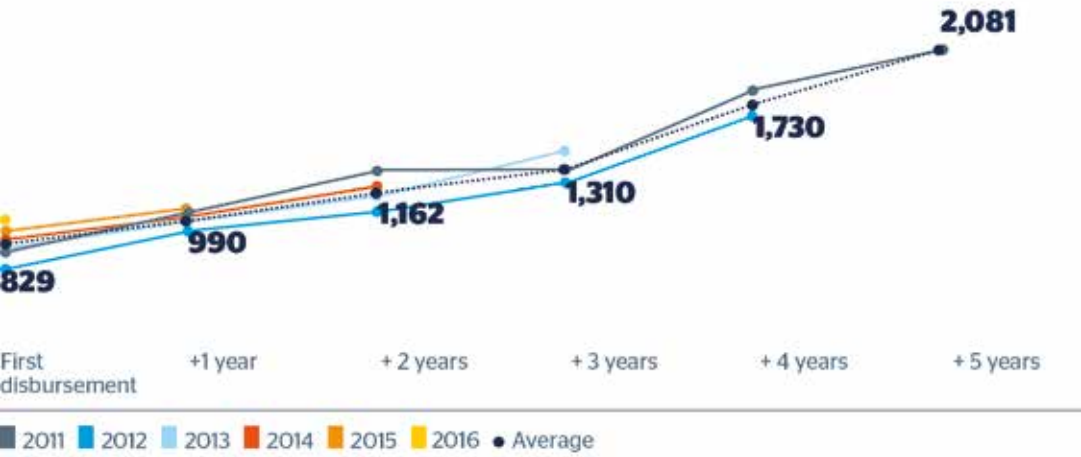
- The reduction in the *poverty* segment is volatile: in the second year poverty falls by 7% and another year is needed before there is a more significant reduction (28%).

Net poverty reduction (16)



Source: Microserfin. BBVAMF calculations.

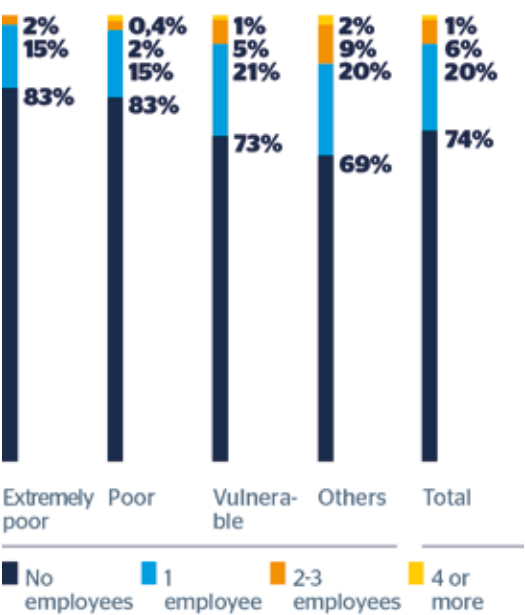
Average disbursement USD per transaction (by cohort) (17)



Source: Microserfin. BBVAMF calculations.

- During 2016, 3,814 people raised their *per capita* net incomes, and of these, 471 overcame the poverty line.
- Disbursements grow in proportion to the time the client has been with the institution, and significantly so when the 4-year mark is reached.
- Initial disbursements are growing from cohort to cohort (in nominal terms), although the annual increases remain the same.
- As clients become less *vulnerable*, their businesses have the capacity to take on more employees; of those in the *others* category, 31% have one or more employee in their business. Overall, 74% of microenterprises only serve to provide employment for the owner.

Microenterprise employee breakdown (18)



Source: Microserfin. BBVAMF calculations.

(15) 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.
(16) 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.

(17) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.
(18) Number of employees in the enterprises of clients current as of 12.31.2016.

6% of Microserfin microentrepreneurs on average are capable of generating at least one new job position after two years. In addition, this percentage increases as the cohort matures, despite the *vulnerable* profile of the clients served (between 2011 and 2014).

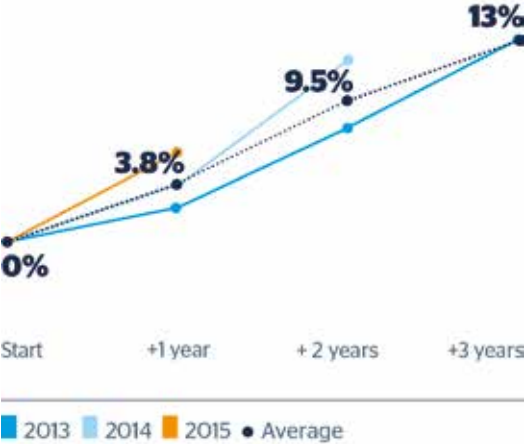
- Around 9.5% of Microserfin entrepreneurs have improved their housing after two years. Panama's housing deficit is a nationwide challenge, and Microserfin markets a product in support of housing improvements (see *Casafin special project*).

Job creation (by cohort) (19)



Source: Microserfin. BBVAMF calculations.

Client improvement in housing (by cohort) (20)



Source: Microserfin. BBVAMF calculations.

(19) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts between 2011 and 2015.
(20) Proportion of clients still current as of 12.31.2016 in each cohort (2013-2015) who have improved their housing conditions, from rented to owned or changed to a newer home.



What really matters

The stories below bring to life the way we all work in Microserfin.

Víctor Cervelio Rodríguez upholsters vehicles; with the loans he has received from Microserfin he has opened a second workshop, bought work equipment and pays his three employees. Silvana, a primary schoolteacher in exile, received several loans which she used on her pastry making: she cooks at home and sells her desserts to stores. Heydi Alonso serves these entrepreneurs, with whom she shares dreams of achievement, personal growth and a better standard of living.



Silvana, refugee and entrepreneur

After fleeing from Colombia, where her life was in danger, Silvana, who is a primary school teacher by profession, received help from Microserfin, in the form of loans, which she used for the wherewithal to make cakes, applying what she had learned in a restaurant. She cooks at home and then takes the cakes around to a number of stores. She also sells costume jewelry on the go and directly in-company.



Scan the
QR code and
discover
the story
of Silvana



Silvana bears the mark of the Colombian conflict tattooed on her life. She prefers to remain anonymous because she fears possible reprisals from those who forced her to leave her country, her family ... her life. She was a teacher in Cali, where she taught people without resources in rural areas. In 2003, together with other teachers, she set up a group called *Semillero de Paz, Colombia sin futuro* ["Seedbed of Peace in a Colombia without a Future"] to try to prevent the village children from being recruited by the guerrilla and the paramilitaries. But their work annoyed people: "The guerrilla and the paramilitary groups sent several messages to our organisation saying 'We don't want you to carry on doing this work, please leave'. To start with they said 'please' in inverted commas, accompanied by an undertaker's card", says Silvana.

After these initial threats, the nightmare began. The teachers' group was declared a military target, explosive devices were put in the classrooms, while their names and those of their families appeared on the lists of the criminal organization *Aguilas Negras* [Black Eagles]. "The collective disappearances started and my colleagues were murdered atrociously", she continues.

When they went to get Silvana, she pretended to be deaf and dumb and they didn't recognize her. So she managed to avoid answering the interrogations about herself. Even though they beat her up and left her lying on the ground, she saved her life. That was when she decided to flee her country and go to Panama, with the idea of one day returning to her home.

But time passed and the situation in Colombia became worse and worse. In Panama she couldn't work as a teacher because she didn't have a work permit, and she couldn't find a way of keeping her head above water. She went through some very hard times, although she was able to reunite with her old-

Microserfin provides opportunities to entrepreneurial refugees within the framework of an agreement with UNHCR and the Panamanian Red Cross.

est son who had also fled Colombia. When she had been in Panama for three years, she decided to reach out to Microserfin.

This institution offers opportunities to entrepreneurial refugees thanks to an agreement with the United Nations High Commission for Refugees (UNHCR) and the Panamanian Red Cross. A commitment that enables exiles to access microloans and training, in order to reduce their vulnerability and make it easier for them to enter the world of work and financial services.

Silvana, with recognized refugee status, was able to access the services offered by Microserfin: "I was surprised when the loan officer got in touch, came to visit me and in practically three days I had my first loan. That was

Name: Silvana (an alias, to protect this entrepreneur's identity).
Business: Makes cakes and sells costume jewelry.
Location: Panama City.
Total loans: Two, totaling USD 1,600.



a great satisfaction for me because someone believed in me again”, she remembers from her first contact with the institution.

She decided to make the most of her work experience in a restaurant to make cakes and desserts. Thanks to the help from Microserfin, she cooks in her home and then takes the dishes to a number of stores. She has already won the loyalty of her clients and, after two years, things started going well. She expanded her business and with a second loan from Microserfin she now sells costume jewelry on the go and directly in-company.

“This support gave me the opportunity to reinvent myself. The loan that Microserfin gave me was wonderful for me as a person,

as a woman and as a human being”, she concludes. According to UNHCR, there are currently over 1,500 refugees living in Panama who, like Silvana, have fled from Colombia in search of a better life.■

“I was surprised when the loan officer got in touch, came to visit me and in practically three days I had my first loan. That was a great satisfaction for me because someone believed in me again”.

Thanks to the UNHCR agreement, entrepreneurial refugees get a second chance.



Silvana shows the jewelry which is helping her forge a new future.



Sewing for a more comfortable future



Scan the
QR code and
discover
the story
of Víctor



Víctor Cervelio Rodríguez's business, *Tapicería Víctor*, is upholstering vehicles. The ten loans he has taken out have enabled him to open a second workshop, buy work equipment, pay his three employees and take on another three on an occasional basis when there is more demand.

Víctor's workshop is littered with sewing machines, covers, fabrics, cushions and other upholstery materials. He is an upholsterer and lathe operator by trade. 33 years ago he decided he wanted to be his own boss. "I realized that upholstering was the art that could bring us success, and I took the decision to set up my own business", he explains.

With financial help from some relatives, he rented premises and began promoting his business, *Tapicería Víctor*. Later on, his father gave him a plot of land where he constructed a building to house his workshop. Over time, he purchased another urban site in the center of *El Coco*, an area with commercial potential, where he built a larger warehouse.

Altogether he has had ten loans from Microserfin, which have enabled him to buy work equipment, pay his employees and make improvements to his commercial premises. He has always covered his annual business growth needs with financing from this institution.

Name: Víctor Cervelio Rodríguez.
Age: 54.
Business: *Tapicería Víctor*.
Location: Chorrera (Panama).
Employees: Three.
Total loans: Ten, for a total of PAB 22,000.
Other products and services: SME.
To highlight: Víctor has been a client since 2011 and was designated *Outstanding Son* in his community, because his workshop was one of the first in the area, and the first to generate employment.



Victor in his workshop in the center of El Coco.



“I was able to pay for both of my children and my wife to study. All thanks to the upholstery workshop”.

At the moment, Víctor has two commercial premises and three people on payroll; when there is a peak in demand he takes on another three occasional workers. He has diversified his products and makes upholstery for cars and buses, furniture, awnings and office furniture. His workshop is one of the few in Panama specializing in upholstery for vehicles. His customers are in Colón Panamá, La Chorrera, Chame and Coronado.

Altogether he has had ten loans from Microserfin, which have enabled him to

buy work equipment, pay his employees and make improvements to his commercial premises. He has always covered his annual business growth needs with financing from this institution.

“I was able to pay for both of my children and my wife to study. All thanks to the upholstery workshop. Our standard of living is nearly middle class”, explains Víctor proudly, because he could only study up to high school.

“As a businessman I encourage people who have an idea like the one I had to put it into practice. With the help of companies like Microserfin they can do it. The fact is it's all a question of effort, work and dedication to your craft”, concludes the entrepreneur, while he upholsters the seats of a bus, changing the foam padding with the precision and skill for which *Tapicería Víctor* is known.■



Victor putting the final touches on the upholstery of a bus.

Much more than an officer: a psychologist, educator, confidant and coach

Heydi Alonso serves entrepreneurs in rural areas, where access is not always easy. But bad weather does not prevent her from giving them advice. She likes it when her clients shares their dreams of achievement, of making their businesses grow and that their children get an education and become professionals.

Every day, Heydi gets into her car to help vulnerable entrepreneurs make their dreams come true: to expand their small businesses and find a way to escape poverty. She has worked in Microserfin for 16 years and spent the last 15 advising clients, with excellent results. Not only does she always reach the goals she is set, but she helps her compatriots attain theirs.

Most of Heydi's clients have small urban stalls selling arts and crafts or they sell on the go; the most vulnerable have businesses in their own homes. She looks after entrepreneurs in the Chitré area in the province of Herrera, which includes the municipalities of Monagrillo, Chitré, Parita and Pesé. The last

of these is very remote, where most clients live deep in the countryside.

Getting to some of her clients' businesses is not always easy. More than once, Heydi has had to cross rivers under heavy rain and other bad weather conditions, but she has never stopped looking after them and advising them.

The job: intense but worthwhile

She remembers with affection the story of Julia Margarita Sandoval, an entrepreneur who, thanks to nine loans from Microserfin, is no longer going from village to village

with a foodstall that she set up for the fairs, but now has her own premises.

As well as a loans officer, Heydi describes herself as a mix of psychologist, educator, confidant and coach, because she has managed to connect on such a deep level with her clients that she feels as though they are part of the family. That is why her job is sometimes even more intense.

"I have had the opportunity to work in rural and urban areas. I have found interesting, all-round and successful businesses in both. It is very worthwhile for me to work in rural areas as a loan officer, to travel distances in the midst of nature and share experiences with straightforward people, without formalities, who want to do their best every day, to make their businesses grow, and who dream of their children getting an education and becoming professionals", Heydi tells us, displaying the same passion she shows in her work.

Her action-packed 15 years of experience are a source of many memories, anecdotes and stories. Often, just getting to clients' homes-enterprises is hard: "One day I was in Chumical de Las Minas, on an earthen track where the houses are a long way from one another. I was visiting a client when, suddenly, my car started overheating and broke down. And in the middle of a lonely track two men appeared and helped me with my vehicle", explains this officer. Her experiences showcase the work of Microserfin, which reaches the most vulnerable and remote communities in Panama.

"I like the work I do because I identify with our core mission as an institution: to support these people in their business and in their desire to overcome obstacles and grow."



Heydi, just about to visit one of her clients in the Chitré area.

To achieve her task she receives continued online training given by the BBVA Microfinance Foundation through its Microfinance Campus. "I find it very helpful and interesting, because we stay up to date on issues that are directly relevant to the environment we work in every day", says Heydi. "I like the work I do in Microserfin because I identify with our core mission as an institution: to support these people in their business and in their desire to overcome obstacles and grow", concludes Heydi.

‘Casafin’, towards decent housing

The *Casafin* loan is an individual microcredit product designed to help low-income families to improve their home gradually, correcting shortcomings in clients’ housing.

The 2030 Agenda for Sustainable Development includes the goal of making cities and human communities inclusive, safe, resilient and sustainable. As a means towards our clients accessing decent housing, Microserfin provides a product that allows clients to meet their home improvement needs little by little, with repairs, upgrades and phased construction.

Housing deficit

The ‘housing deficit’ (understood as the lack of resources to own and inhabit a decent home where you can sleep, wash, feed yourself and live under one roof with your family) is a problem that impacts on the standard of living of those who suffer it and entails other social exclusion factors.

Panama’s housing deficit is estimated at around 150,000 residential units, equivalent to 14% of the country’s housing. Economic growth from 2000 onwards led to a steep drop in this percentage, which had previously been as high as 30%, but in recent years the levels have been stagnant⁽¹⁾. It is thus an issue for the country’s economy and a development factor for Microserfin’s vulnerable clients.

The *Casafin* loan is an individual microcredit product designed to help low-income families in the informal economy (mainly microentrepreneurs) to improve their homes gradually with a *Technical Building Assistance* plan. This product does not have to be backed up by mortgage collateral since, as with all Responsible Productive

Finance products, it is granted subject to the revenue-generating capacity of our clients’ micro-enterprises and of the business assets that sustain their enterprise.

The program began in May 2012 with a pilot. The feasibility studies, product design and financing were managed within the scope of a technical cooperation agreement with the Interamerican Development Bank (IDB). An important differentiating factor of this initiative is that it is reinforced with a Technical Building Assistance plan which supports the family in planning and organizing the improvements, choosing the necessary materials and quotes, as well as a rigorous ‘post-disbursement’ follow-up to make sure their home improvement plan is on track and to verify the standards of construction.

As of today, the product is being used throughout the country, except for the provinces of Bocas del Toro, Colon and Darién, and is principally for clients in the trade, services and production sectors.

Since it began in May 2012, 4,284 projects have been financed for 2,948 low-income clients, who have been able to make improvements to their homes or business premises. As of September 30, 2016, *Casafin* accounts for 9.7% of the total loan portfolio, making it an important product in the institution’s portfolio mix.

Our target client’s needs

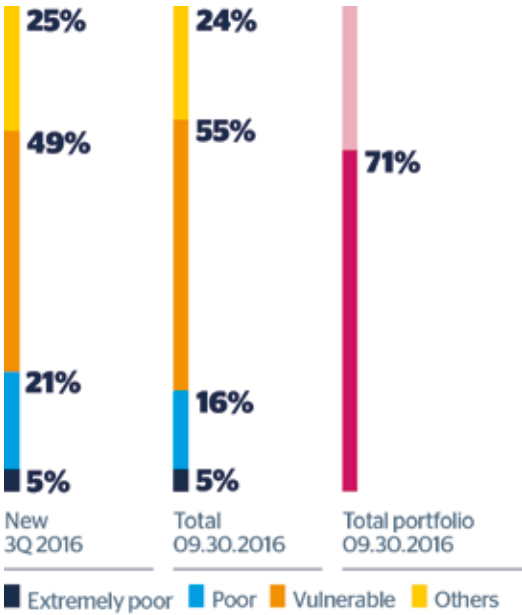
The target client profile encompasses clients in rural or urban areas, with housing or land that belongs to them or to family members. These family units should have a microenterprise as their main source of income. *Casafin* offers loans to meet the needs of low-income families to improve their housing, especially families who are excluded from the banking system and, as such, from accessing a mortgage. Clients served by this special program (current in September 2016), are 5 p.p. more *vulnerable* than Microserfin clients as a whole at September 30, 2016.

(a) New *Casafin* clients in the third quarter; current *Casafin* clients at 09.30.2016 vs. *vulnerability* of all Microserfin’s current clients at 09.30.2016. According to the poverty line set by the Ministry of Economics & Finance (differentiating between rural and urban environments).

The key purpose of this product is to bring forward the building of a suitable home, adapted to the construction that is traditional in that particular community, in stages or gradually, thus contributing to reducing Panama’s housing deficit.

This product’s main purpose is to bring forward the building of suitable housing (upgrades, repairs or the construction of part of the home), adapted to the construction that is traditional in that particular

Monetary vulnerability of Casafin clients (a)



Source: Microserfin data. BBVAMF analysis.

community, in stages or gradually. This type of product aims to match unsatisfied demand in this segment, especially for women microentrepreneurs, since it tends to be the women who invest their surplus in the home and the family.

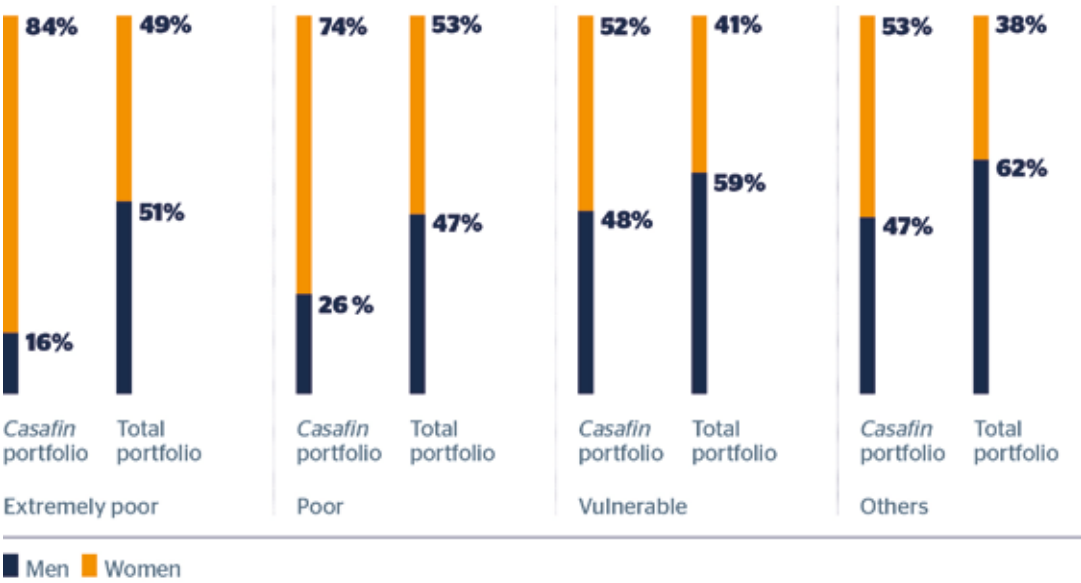
The new loans are serving clients who are more *vulnerable* than clients served by the institution as a whole (74.7% of vulnerability among *Casafin* clients in 3Q16 vs. 70.3% of all new clients over the quarter). So this is clearly a product that helps us to maintain our focus on the most *vulnerable* clients.

The clients taking out this loan for home improvements are mainly women. Of current clients as of September 30, 2016, the percentage of women with *Casafin* is

57% whereas in the portfolio as a whole they make up 42% (ie. 37% more than the average for the portfolio). Furthermore, the profile is highly urban and has higher educational levels than the average for the portfolio (23% of clients with *Casafin* have primary education at best vs. 32% for the portfolio as a whole), although the second factor is also conditioned by the fact that most clients live in the urban environment.

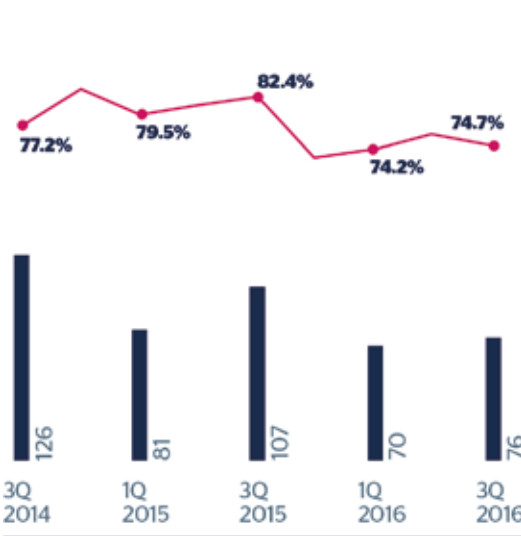
The *vulnerability* profile of female *Casafin* clients reveals a high proportion of women in the most *vulnerable* segments, much higher than in the total client portfolio, which is a reflection of this product's reach with the most vulnerable sectors of the population, women in particular, because of the impact that this has on their families.

Vulnerability and gender (d)



Source: Microserfin data. BBVAMF analysis.

New credit clients who have taken out *Casafin* (b)

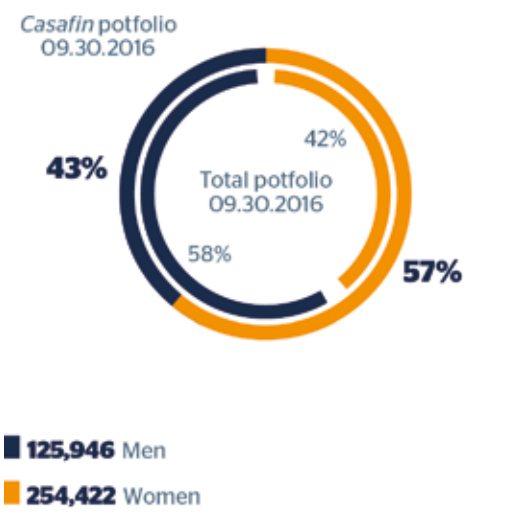


Source: Microserfin data. BBVAMF analysis.

(b) New *Casafin* clients by quarter and level of economic *vulnerability*. According to the poverty line as set by the Ministry of Economics & Finance (differentiating between rural and urban environments).

(c) Proportion of women in the client portfolio with a *Casafin* product current as of 09.30.2016.

Clients by gender (c)



Source: Microserfin data. BBVAMF analysis.

(d) Monetary *vulnerability* of *Casafin* clients vs. total portfolio at 09.30.2016. According to the poverty line as set by the Ministry of Economics & Finance (differentiating between rural and urban environments).

(e) Number of clients by age current in the portfolio at 09.30.2016.

Since it is a home improvement product, the young person's segment (under 30 years old) is under-represented compared to total current clients. The client group serviced by this product is over 30 (82% of the *Casafin* portfolio) with their own home (99% of clients have their own home).

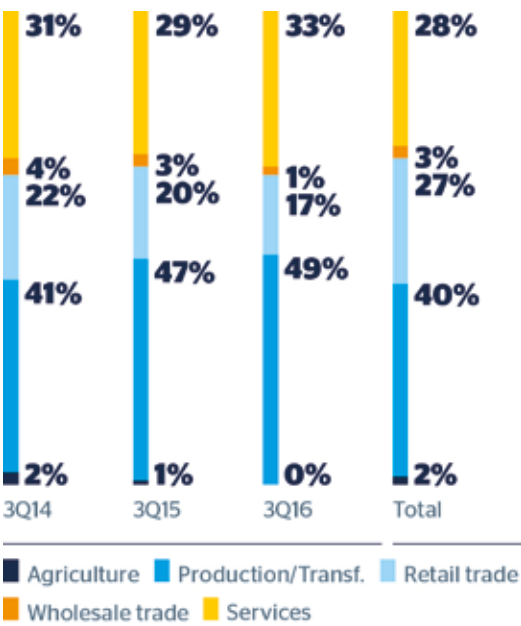
The clients taking out this loan for home improvements are mainly women. In the total portfolio as of September 30, 2016, 57% of women had a *Casafin* product, whereas in the portfolio as a whole they make up 42%.

Client breakdown by age (e)



Source: Microserfin data. BBVAMF analysis.

New clients - Sector breakdown (f)

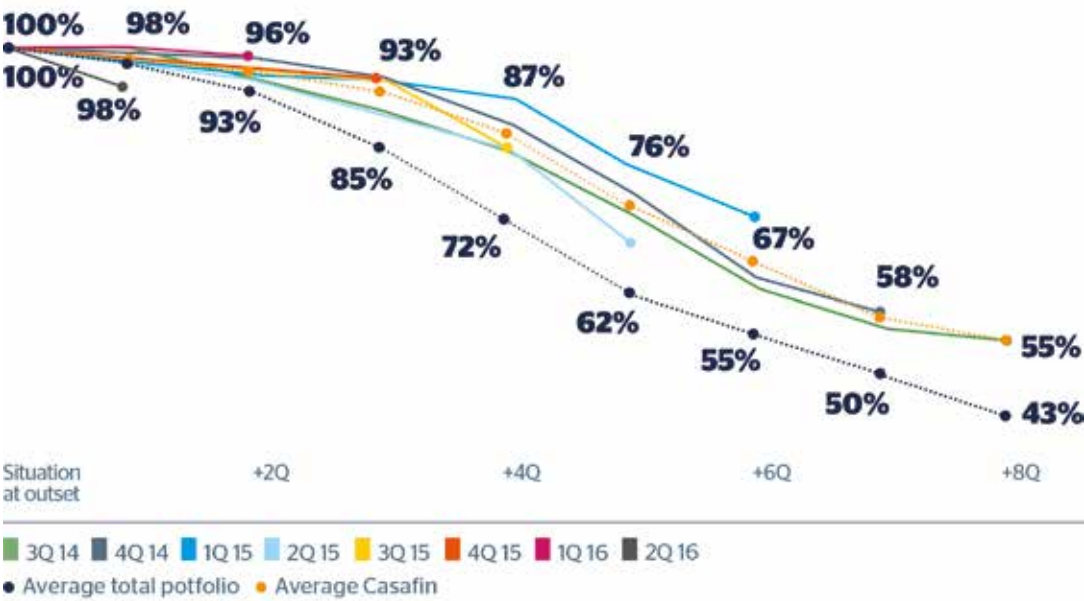


Source: Microserfin data. BBVAMF analysis.

Casafin clients' businesses, as the product definition itself indicates, are mainly *production* and *transformation* (49% of new clients vs. 40% of the total *Casafin* client portfolio current at 09.30.2016) and *services*, accounting for 27% of all clients. Conversely, the participation of *agricultural* clients is very low.

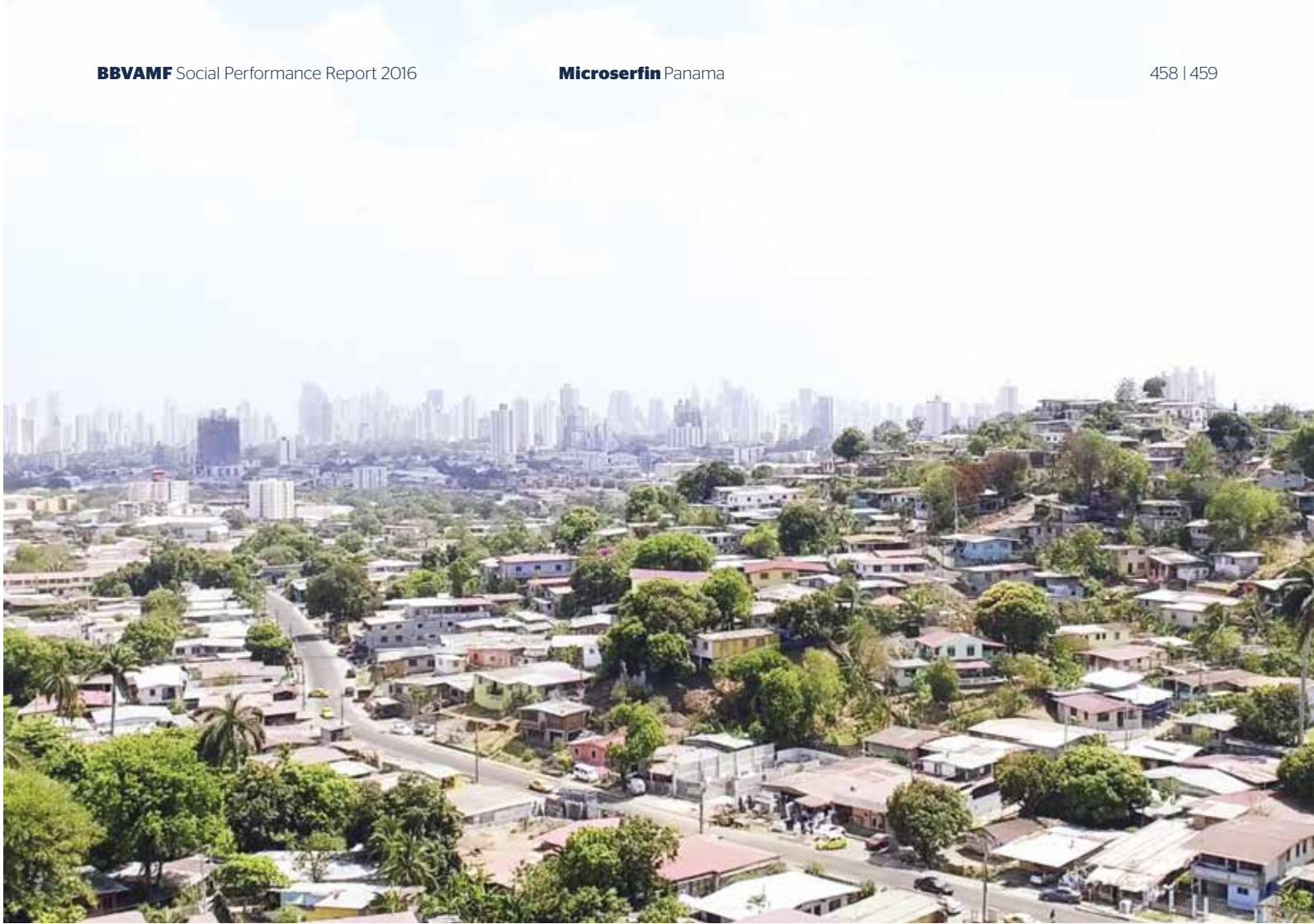
This product generates long-term relationships, so it encourages clients to remain with the institution. Thus, at +4Q *Casafin* client retention is 15pp higher than the portfolio average; at +8Q, this differential is still high, although it has edged down to 12%.

Casafin client retention (g)



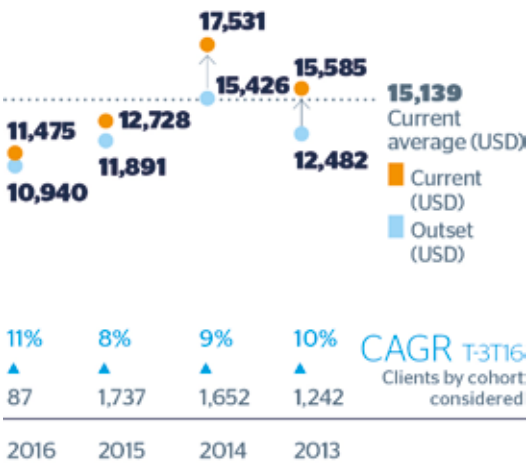
Source: Microserfin data. BBVAMF analysis.

(f) New *Casafin* clients every quarter and total *Casafin* clients current at 09.30.2016.
(g) Percentage of *Casafin* clients in each cohort still current on each date; average of quarterly 2014-2016 cohorts.



Performance of assets (h)

CAGR
8.8%



Source: Microserfin data. BBVAMF analysis.

Clients of this product, with fairly high assets at the outset, perform positively in terms of asset growth; these grow at an annual rate of 8.8%.

Casafin is an innovative product that promotes access to decent housing, in living conditions that are suitable for our clients' development. The impact of these improvements has repercussions, not only for the client, but also in improved standards of living for their entire family.■

(h) Data on clients current at 09.30.16, and who have updated their data in the previous half year. Situation at the outset (data on their cohort year) and the situation at 09.30.16. CAGR: Compound Annual Growth Rate.

Notes (1) National Competitiveness Center [Centro de Nacional de Competitividad], CNC, Panama.

Converging towards its potential growth

The Panamanian economy is still one of the fastest growing economies in the region despite being in its fifth consecutive year of slowdown. Construction is the driver of the economy, bringing the unemployment rate down to 5.5%. Poverty continues to fall and in the last five years, 785,000 adults have joined the financial system.

The Panamanian economy⁽¹⁾ is in its fifth consecutive year of slowdown. The traffic of vessels through Panama Canal has fallen by 6.6%, both deeper draft (7.1%), and shallow draft (2.3%) ships, causing a reduction in tolls (3.7%), associated with lower momentum in world trade. Even so, in 2016 the economy grew by around 5.4%. Building work to expand the Canal has bolstered the economy, together with the rest of the construction sector⁽²⁾.

Mine and quarry construction and operating grew at around 7.9%, due to investment in the public sector, in building, such as the urban renewal in Colón, the restarting of healthcare sector projects, progress on Line 2 of the metro, the construction of the third bridge over the Canal, the expansion and improvement of the country's road network, the construction of an electricity plant, and a mineral processing plant in the

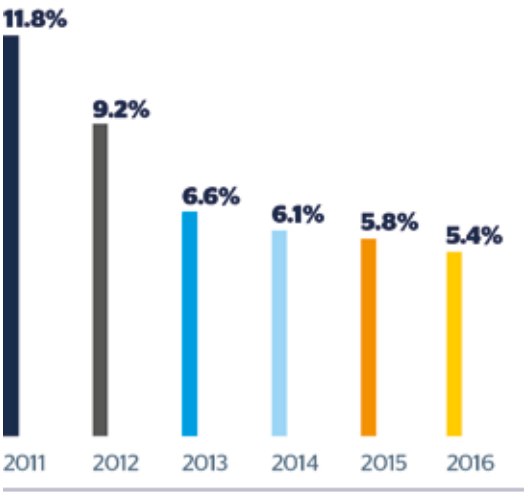
Donoso district, in Colón province. This sector accounts for 16% of the economy's entire GDP. The supply of electricity, gas and water has grown by 10.7%, making it the most buoyant sector over the year, while financial intermediation has expanded by 7.2%. This last sector has gained in weight as a proportion of GDP, making up 4% of the total.

In the last few years wholesale and retail trade has been affected by the difficulties the country's main trading partners are experiencing, particularly Venezuela, which has had an impact on the levels of activity in the Colón Free Trade Area, with the result that for the second consecutive year sector growth has slowed, closing the year with an increase of 4.1%. This sector accounts for 18% of the economy as a whole. The reduced momentum in global trade referred to above is reflected in the

minimal growth in transport, storage and communications, 14% of the country's GDP, which edged up by just 0.2% over the year. The sectors where activity has shrunk are: fisheries, manufacturing and agriculture, with drops of 9.5%, 1.3% and 0.2%, respectively. Together, these sectors account for 8% of the whole.

This performance in the economy has been mirrored by the central government deficit, which has remained at 4% of GDP, similar to 2015. The fall in oil price has had an effect since 2015 in that inflation levels are at their lowest in the last five years; however, this drop is expected to correct as the price of this raw material recovers. In the first 11 months of the year, inflation was 1.3%, an outcome of the falling prices in communications (-2.7%) and less momentum in food and non-alcoholic beverages, as well as housing, water, electricity and gas, which posted rises of 0.7% and 0.5%, respectively. By the end of 2016, inflation is expected to stand at 1.5%.

Real GDP growth



Source: IMF, BBVAMF Research estimates.

Labor market

Panama⁽³⁾ has one of the lowest rates of unemployment in the region, at 5.5%, having kept it for seven years in a row at under 7%. The labor force participation rate is, for the fifth consecutive year, around 64.4%, whereas the employment rate is about 61%, for the sixth consecutive year.

According to official figures, although total occupation in the country has risen by around 37,000 people, private sector employment has fallen by about 15,000, representing a fall of 2% between 2015 and 2016. For its part, employment in the public sector has increased slightly by 2.2% from the year before which, together with the boost from a number of public investment projects in infrastructure executed by the private sector, has made it possible to reduce the adverse impact of the deceleration in growth.

The data suggest that growth in occupation is due to the informal sector, where the rate has risen by 8.3%, most of which is accounted for by the increase in self-employed work. Informal employment makes up 53% of the workforce, of which about 13% consists of informal wage-earners in formal companies⁽⁴⁾.

Panama has one of the lowest rates of unemployment in the region, at 5.5%, remaining for the seventh consecutive year under 7%.

Poverty and inequality

The proportion of poor people in Panama⁽⁵⁾ continues to fall, currently standing at 23%, which means that 903,000 people are in poverty. In the last five years, however, 93,000 people have escaped this trap. The robust growth enjoyed in the country over the past few years undoubtedly accounts for 83% of this improvement; the remaining 17% can be laid at the door of transfer policies to households and individuals, which has had a noticeable redistributive effect.

The provinces as a whole suffer a poverty rate of 18.9%, an improvement of 4.4% over recent years. The province with the lowest level of poverty is Panama West, at 8.6%, whereas the highest is endured in Boca de Toro, with a rate of 48.1%. This latter province, however, has posted the greatest progress in terms of poverty reduction, improving its ratio by 6.9 p.p. The districts where the indigenous population live have the highest rate of poverty, at 84.6% and they have only improved by

4.6%. Ngäbe Buglé, Kuna Yala and Emberá suffer poverty levels of 86.8%, 78.5% and 68.5%, respectively.

Extreme poverty has also fallen, from 11.1% to 10.3%. Although in the last year around 19,000 people left the threshold of poverty, in accumulated terms there has been no change. This reduction was more pronounced in the provinces than in the districts; in the latter, 65% of the population suffers from extreme poverty, on average. The progress made in poverty terms has not made any significant impact on inequality, with the result that Panama has one of the worst inequality figures in the region, with a Gini indicator score⁽⁶⁾ of 0.528 in 2010, and of 0.519 in 2016.

Financial inclusion

Going by the number of people with a bank account, in Panama 43% of adults have access to the financial system⁽⁷⁾, an 18 p.p. improvement since the previous evaluation, in 2011, in which only 25% had access. Around 785,000 adults are included in the financial system, from which 1.1 million are still excluded. In the last three years 330,000 adults have joined.

Schooling levels account for the greater financial inclusion gap. 50% of adults with secondary education or more are included in the financial system, compared to only 22% of those with primary education or less, a gap of 28%. Furthermore, it is the group of those who have been schooled up to secondary or better that has progressed most in terms of financial inclusion, from 28% having an account in 2011, to 50% in the recent measurement, an improvement of 22%. The segment with primary education or less has made the least progress in financial inclusion terms, rising from 15% inclusion in 2011, to 22% in the latest measurement, an improvement of 7%.

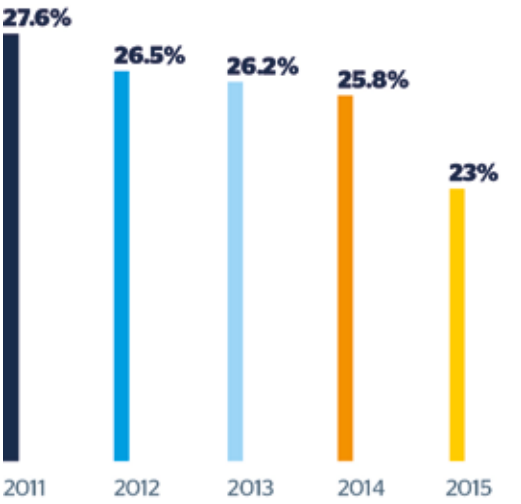
51% of the higher income adults (the 60% richest) have access to the financial system, whereas in the lower-income segments (the 40% poorest) this is true of only 32%, the

50% of adults with secondary or more education are included in the financial system, compared to only 22% of those with primary education at best.

gap thus being 19%. The group belonging to the lower-income segments has made progress in terms of financial inclusion, going from 19% inclusion in 2011, to 32% in the last evaluation, a rise of 13 p.p.

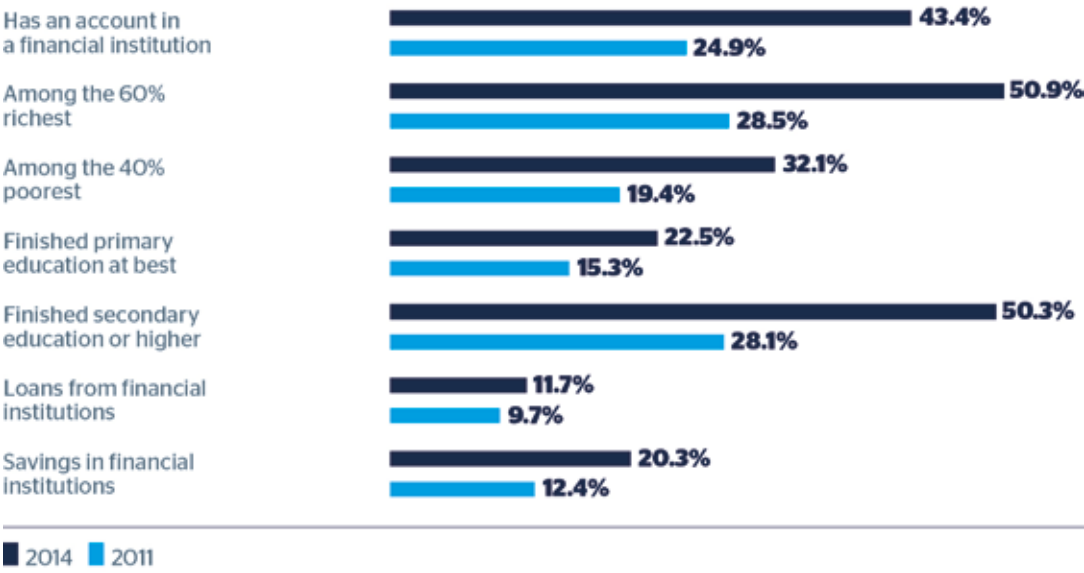
In terms of products, 62% said that they had saved some money in the previous year, but only 20% have done so in formal financial institutions. 13% did so to start, operate or expand some kind of commercial activity. 48% of adults applied for a loan last year, but only 12% did so from a formal financial institution, and of these, 7% did so to operate, set up or expand commercial activity. In terms of use, 69% of those with an account have made some movement in that account in the last year. 34% have made one or two movements a month in their accounts, compared to 29% who have conducted three or more transactions a month.■

Poverty (% total population)



Source: Ministry of Economy & Finance.

Financial inclusion (% adults)



Source: World Bank Global Index.

Notes (1) To the end of November 2016. (2) All estimates are by BBVAMF Research with information from the national Statistics and Census Institute [Instituto Nacional de Estadística y Censo]. (3) I.L.O. (4) Employment Foundation [Fundación Empleo]. (5) Ministry of Economy & Finance. (6) Ratio from 0 to 1, distributive equality and total concentration, respectively. (7) Global Index World Bank.