2017 Social Performance Report

Measuring what really matters

117,331
Total clients

Chile
Fondo Esperanza

82%
Women

USD 251,956,414
Amount disbursed

39%
Primary education
at best

Fondo Esperanza is the biggest community banking microfinance institution in Chile. It serves over 110,000 people, 82% of whom are women. It reaches out to vulnerable individuals, provides financial services, promotes training and support networks, all with the goal of improving their standard of living, that of their families and their communities.

Fondo Esperanza SpA (Fondo Esperanza) was set up by the BBVAMF and the Hogar de Cristo Foundation for Charity, Help and Hope [*Fundación de Beneficencia, Ayuda y Esperanza]* in 2011. This social development institution is dedicated to supporting vulnerable entrepreneurs. As well as financial services, it provides training in its *School for Entrepreneurs* and support networks so that their lives and their communities can prosper.

The institution is a leading microfinance institution in the country, specializing in group lending, a methodology it supplements with individual credits. The entrepreneurs involved in a lending group attend weekly or fortnightly meetings with the other members of their group. They are trained in the *School for Entrepreneurs* so that they can take on a progressive loan plan that is increased at each cycle and is underwritten by the group as a whole (a group guarantee).

A team of 608 professionals support the dreams of over 110,000 entrepreneurs, most of whom are women. The institution has a network of 54 branch offices covering 248 districts throughout the country, from Arica to Chiloé. With a track record of 15 years looking after vulnerable people, today Fondo Esperanza is the biggest community banking institution in Chile.

Fondo Esperanza drives entrepreneurship in Chile's most vulnerable segments, facilitating loans, micro-insurance and training

Headline figures

Data at December 31st, 2017

Total clients	Nº of disbursements in 2017	Nº of branch offices
117,331	289,265	54
Gross loan portfolio (USD)	Average disbursement in 2017	Nº of employees
79,550,028	871	608
Amount disbursed in 2017 (USD)	People receiving financial education	
251,956,414	165,673	

Source: Fondo Esperanza. BBVAMF calculations.

Total clients

117,331

Fondo Esperanza as an institution has the mission of serving low-income micro-entrepreneurs by means of financial services, training and by encouraging the creation of networks using an integrated micro-finance model. Of its total 117,331 clients in all, over 60% run enterprises that generate net incomes worth less than the basic food basket. Entrepreneur-ship is particularly beneficial in creating opportuni-ties for segments suffering from a lack of employ-ment in the formal economy, such as women and clients with primary education at best. This positive and recurring growth over time is shown in the 44% reduction in the segment of clients classified as *poor*, after they have been with the institution for two years.

Total clients

117,331

93%
Vulnerability [1]

82%
Women

39%
Primary education at best [2]

New clients in 2017

44,733

96%
Vulnerability [1]

75%
Women

31%
Primary education at best [2]

346
USD
Average disbursement [3]

187
USD
Monthly net income *per capita*

4.0
people
Household size

Fondo Esperanza Chile

1. According to the Social Development Ministry's poverty line, new methodology. Clients whose monthly 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 in *vulnerability*. **2.** Proportion of all credit clients who have completed primary education, at best. **3.** Average disbursement: average disbursement of new clients served in 2017.

Source: Fondo Esperanza. BBVAMF calculations.

1. Our clients

SDGs impacted

Socio-economic profile

• 61% of Fondo Esperanza's clients (and 72% of new clients) are considered *poor* or *extremely poor* according to the poverty lines set by the Ministry of Social Development.
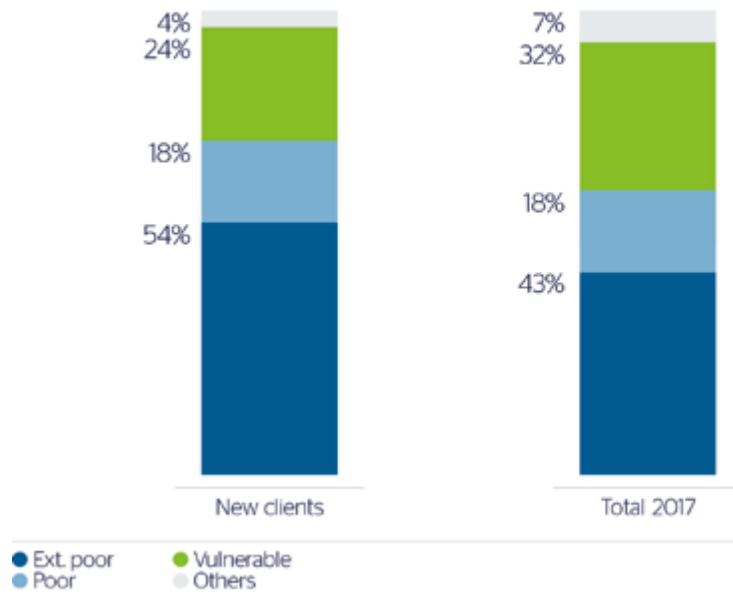
• In Chile, 49% of households in a situation of poverty are headed by a woman with limited labor opportunities (the participation of women in enterprises is higher than their participation in waged jobs)*. Almost all Fondo Esperanza's clients (82%) are women, of whom 40% have only basic education (primary at best). New female entrepreneur clients served in 2017 generate monthly *per capita* (*p.c.*) net incomes of USD 153.

• Fondo Esperanza has remained true over the years to its mission to support that part of the population with the least access to financial services: 96% of new clients are in *vulnerability*, an average it has kept stable since 2012.

1. According to the Social Development Ministry's poverty line, new methodology. Clients whose net income (i.e. profit obtained from their microenterprise) divided by the number of members in the family unit (*per capita*) is over the poverty line but no more than three times the poverty line of their corresponding country are classified as *vulnerable*. 'Total': represents the number of clients at 31.12.2017. **2.** Proportion of clients current as of 12.31.2017 New clients (no previous loans) signed up over the year.

*INE, Employment survey, 4th Micro-enterprise Survey, 2015.

1. Client economic vulnerability

New clients: 4% Others, 24% Vulnerable, 18% Poor, 54% Ext. poor
Total 2017: 7% Others, 32% Vulnerable, 18% Poor, 43% Ext. poor

● Ext. poor ● Vulnerable
● Poor ● Others

Source: Fondo Esperanza. BBVAMF calculations.

2. Women's profile

82% — 40% — 95% — USD 153

● Women ● % Vulnerability
● Primary education at best ● Monthly per capita net income (new clients)

Source: Fondo Esperanza. BBVAMF calculations.

- In 2017 the linkage with new entrepreneurs is a sign of its commitment to reaching the most vulnerable, with 75% being women and 28% young people under 30 years old (segments of high *vulnerability*) *(see graph 6)*.

- In effect, the collective with the lowest incomes is women, and they account for 74% of our *poor* clients and 86% of our clients in *extreme poverty*.

- Monthly *p.c.* net incomes of clients in *extreme poverty* come to an average of USD 68, which in turn is 39% of the poverty line (PL) figure. They would have to increase their net incomes by 260% to get over the PL, and these clients make up the majority of the new entrepreneurs we have reached out to in 2017. These people, with the support of microfinance and their lending group, will succeed in integrating into a community which will contribute to their development.

- In Chile there is a yawning gender gap in the labor and economic arenas: the gap in labor participation rate between women and men is 23 percentage points (the third highest in the OECD), and only 48% of women take part in the formal labor market. The remaining 52% neither has a job in the formal economy nor is looking for one**. In 57.9% of cases, women entrepreneurs report that their reason for having their own enterprise is that they have found no other way of generating income or supplementing their family's earnings.

3 & 4. New clients (no previous loans) signed up over the year. **5.** According to official poverty lines from the Ministry of Social Development, depending on household size (new methodology). Clients signed up during the year (no previous loans).
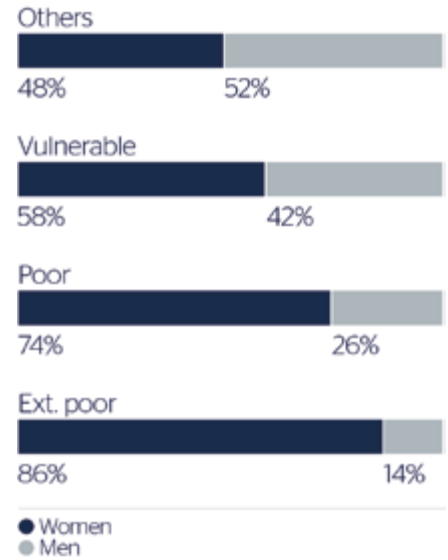
**http://www.comisiondeproductividad.cl/wp-content/uploads/2017/09/Informe_Recomendaciones_para_aumentar_la_Participacion_Laboral_Femenina_en_Chile.pdf
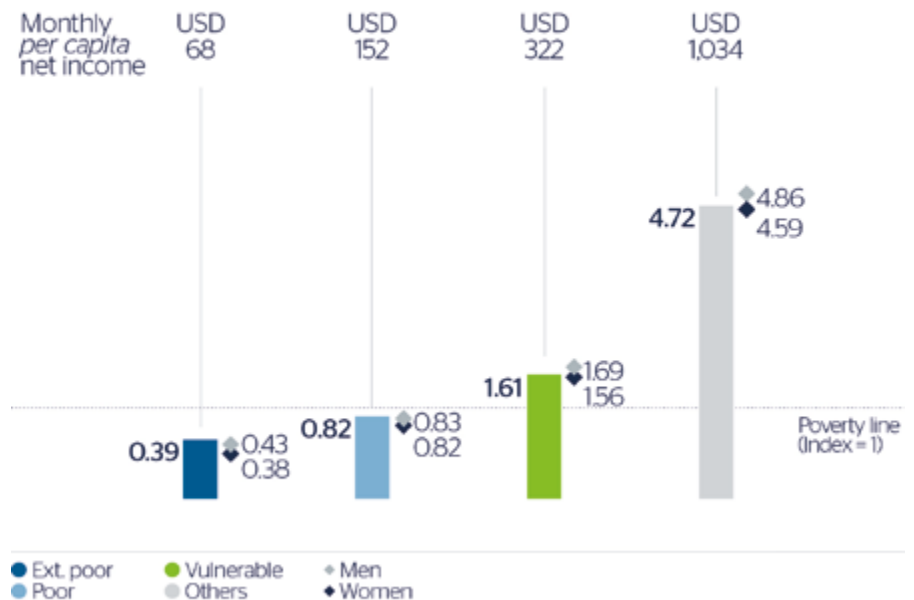
3. New credit clients

99% 98% 98% 97% 97% 96%

29,373 33,641 49,285 46,815 47,604 44,733

2012 2013 2014 2015 2016 2017

● New clients per cohort
○ % Vulnerability

Source: Fondo Esperanza. BBVAMF calculations.

4. New credit clients' vulnerability, by gender

Others
48% 52%

Vulnerable
58% 42%

Poor
74% 26%

Ext. poor
86% 14%

● Women
● Men

Source: Fondo Esperanza. BBVAMF calculations.

5. Relative net income of new clients

Monthly *per capita* net income

USD 68 USD 152 USD 322 USD 1,034

0.39 ◆0.43 / 0.38
0.82 ◆0.83 / 0.82
1.61 ◆1.69 / 1.56
4.72 ◆4.86 / 4.59

Poverty line (Index = 1)

● Ext. poor   ● Vulnerable   ◆ Men
● Poor   ● Others   ◆ Women

Source: Fondo Esperanza. BBVAMF calculations.
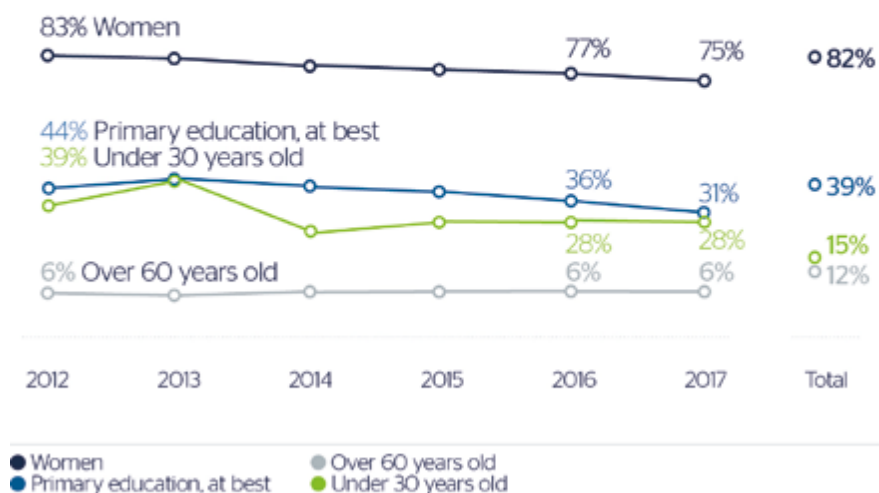
Fondo Esperanza Chile

1. Our clients

• The gender gap in Chile not only affects getting a job, but also the income earned, whether as an employee or as an entrepreneur. Women's enterprises are smaller, they cannot spend as much time on their businesses as men, and incomes tend to be merely a supplement to the husband's wage.

• Clients' *p.c.* monthly net income, analyzed by gender, confirms the reality of Chilean society, where the gap between women and men is noticeable at all income levels, including the higher ones *(see graph 5)*.
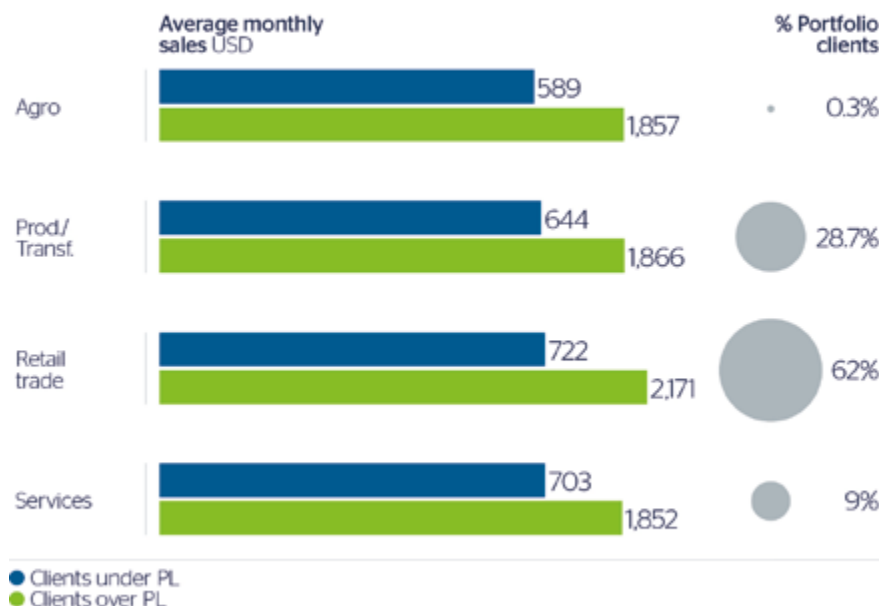
• Supporting women with integrated services (financial, educational, network creation, etc.), not only reduces inequalities, but stimulates the country's growth, productivity and competitiveness.

6. Profile of new credit clients

83% Women — 77% — 75% — 82%

44% Primary education, at best
39% Under 30 years old — 36% — 31% — 39%
— 28% — 28% — 15%
6% Over 60 years old — 6% — 6% — 12%

2012   2013   2014   2015   2016   2017   Total

● Women   ● Over 60 years old
● Primary education, at best   ● Under 30 years old

Source: Fondo Esperanza. BBVAMF calculations.

7. Average monthly sales – clients under and over the poverty line (PL)

	Average monthly sales USD	% Portfolio clients
Agro	589 / 1,857	0.3%
Prod./Transf.	644 / 1,866	28.7%
Retail trade	722 / 2,171	62%
Services	703 / 1,852	9%

● Clients under PL
● Clients over PL

Source: Fondo Esperanza. BBVAMF calculations.

6. New clients (no previous loans) signing up during the year. Total shows the number of clients current at 12.31.2017. **7.** Average monthly sales and average assets in each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. Covers clients current at 12.31.2017.
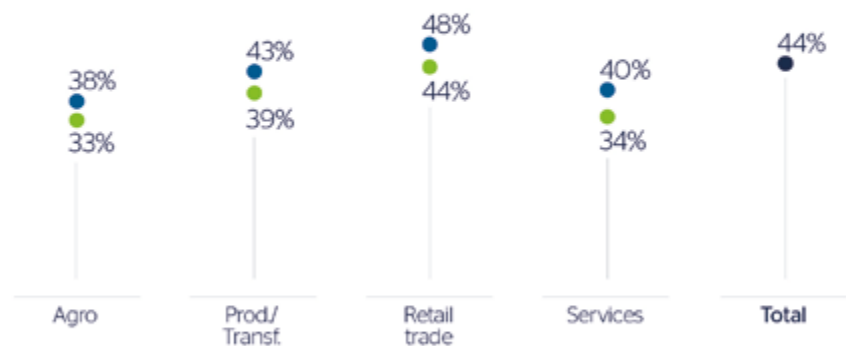
Their business profile

• Fondo Esperanza's entrepreneurs are mostly Retail traders (62%), followed by occupations in Production and transformation (at 29%). They tend to be small-scale activities, sometimes mixed, low-income enterprises which allow them to avoid unemployment and to increase household income.

• The highest average operating costs occur in the Retail trade sector, where *poor* clients spend five out of every USD 10 on running the business, while for *non-poor* clients the amount is USD 4.5.

• In effect, due to the sector concentration, there is not much of a spread in the value of average monthly sales between sectors, although in Trade there are differences between *non-poor* clients (average sales of USD 2,171) which are around four times as high as those of *poor* clients (USD 722).

• Low barriers to entry are favorable to entrepreneurship in Trade, in other activities with little initial investment and lower requirements in terms of training and technical skills.

• Women in Chile face higher entry barriers to become entrepreneurs or to access the labor market. In Fondo Esperanza 56% of women who are married or in a civil partnership decide to become entrepreneurs. Many of the entity's women clients are single, separated or widowed: they account for 44% of all clients and of these, 90% have family dependants. Their businesses tend to be in their homes (38%) or as street/fair vendors (42%).

8. Average expenses as percentage of sales, by sector - clients under and over the poverty line (PL)

	Agro	Prod./Transf.	Retail trade	Services	Total
Clients under PL	38%	43%	48%	40%	44%
Clients over PL	33%	39%	44%	34%	

8. Costs as a proportion of average sales in each sector. Segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. Covers clients current at 12.31.2017.

● Clients under PL
● Clients over PL

Source: Fondo Esperanza. BBVAMF calculations.

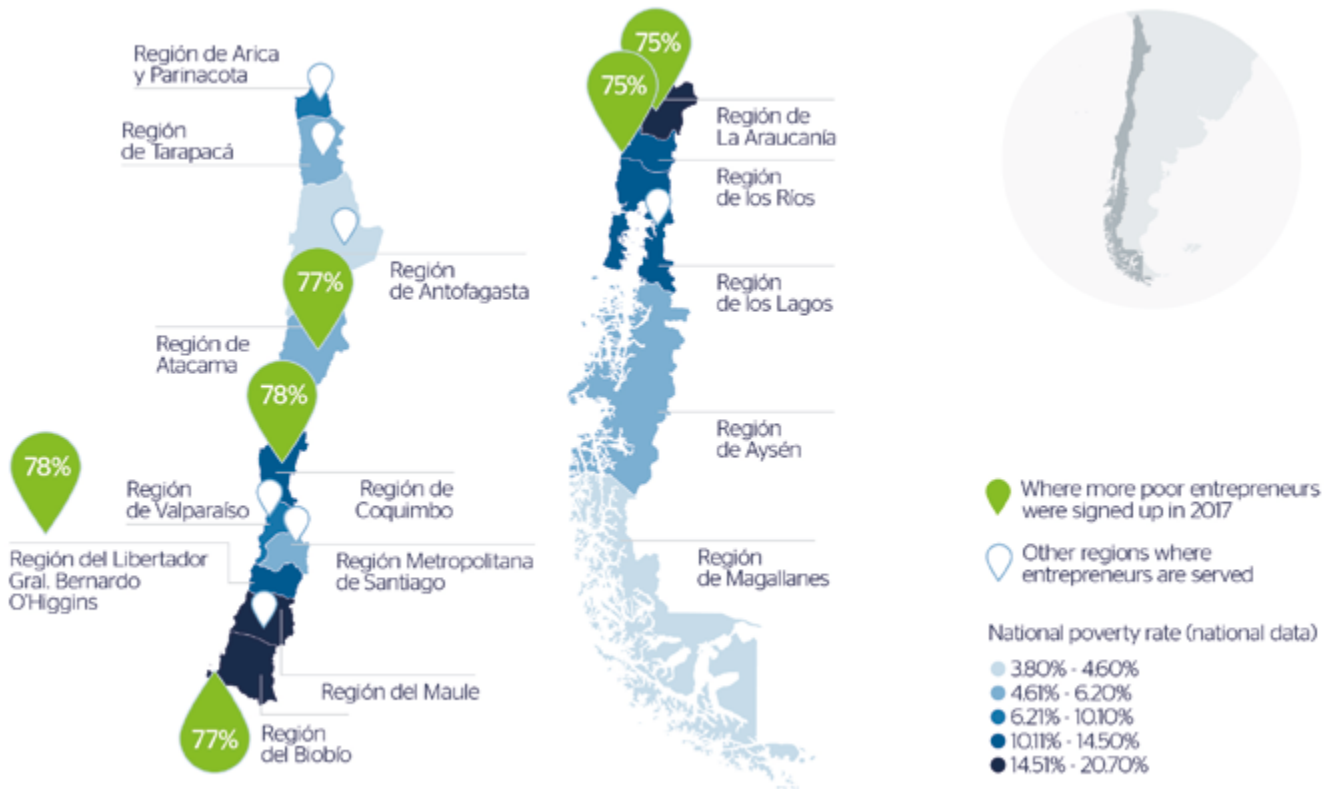**Fondo Esperanza** Chile

1. Our clients

Where our clients are

• Fondo Esperanza covers a large proportion of the country (87%), reaching the poorest regions, thus meeting the commitment of its mission to support vulnerable entrepreneurs.

• A third of the clients served by Fondo Esperanza are in areas with the highest rates of poverty in the country. In 2017, Fondo Esperanza increased its reach to new clients under the PL by 25%, in the areas with the highest poverty rates: Biobío (77%), O'Higgins (78%), Atacama (77%) and Coquimbo (78%).

• There is a wide gap between national poverty rates and the percentage of *poor* clients served by Fondo Esperanza. This is due to:
1. The highly localized geography of the low-income client niche.
2. The methodology used by official bodies in measuring poverty. In Chile the PL is calculated from an extreme poverty line which is constructed of not only the basic food basket (as used in the other countries where the BBVAMF Group operates) but also the cost of clothing and housing. The PL is set as 2.68 times the extreme poverty line if the household is made up of one person and multiplied by 0.7 for every additional family member.
3. This computation for measuring income has other components, since it also bears in mind the subsidies and transfers received from the State, as well as rents received from housing, whether owned, ceded or in usufruct. Research indicates*** that if neither subsidies nor rentals charged were included in the calculation (the Group's internal methodology does not include them), the national poverty rate would be at least double the figures published by official bodies.

9. **National poverty rate and sign-ups of poor entrepreneurs in 2017**

Región de Arica y Parinacota
Región de Tarapacá
Región de Antofagasta
Región de Atacama
Región de Valparaíso
Región de Coquimbo
Región Metropolitana de Santiago
Región del Libertador Gral. Bernardo O'Higgins
Región del Maule
Región del Biobío
Región de La Araucanía
Región de los Ríos
Región de los Lagos
Región de Aysén
Región de Magallanes

75% 75% 77% 78% 78% 77%

Where more poor entrepreneurs were signed up in 2017

Other regions where entrepreneurs are served

National poverty rate (national data)
● 3.80% - 4.60%
● 4.61% - 6.20%
● 6.21% - 10.10%
● 10.11% - 14.50%
● 14.51% - 20.70%

Source: Fondo Esperanza. BBVAMF calculations.

9. Proportion of poor households in the region (2015). Ministry of Social Development. CASEN census data. The six regions with the highest percentage of *poor* new clients served in 2017 are shown.
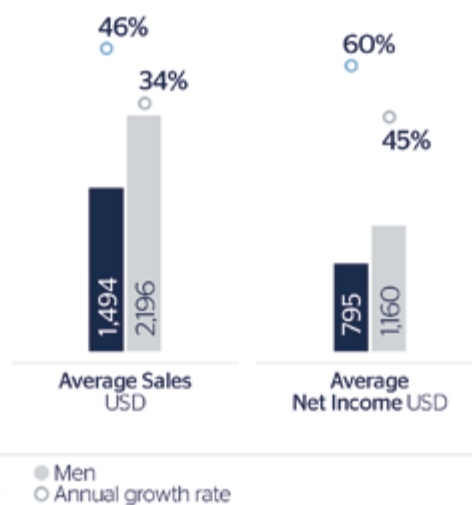
2. Our clients' development

SDGs impacted

Growth of their businesses

• As the entrepreneur's businesses expand, growth rates taper. Women entrepreneurs on average manage to generate monthly sales of USD 1,494, with average growth rates of 45.6%; men, with higher average sales of USD 2,196, have lower growth rates (33.7%). This also applies to net incomes: in the case of men, these expand by 15% less than those of women (which reach annual rates of 59.6%).

• Production and transformation is the sector with most growth since 2012, both in sales and in net incomes.

10. Clients current at some point in the year and who have made a disbursement or update in the last 12 months of their relationship with the institution. The compound annual growth rate (CAGR) of the 2013-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. **11 & 12.** Clients current at some point in the year and who have made a disbursement or update in the last 12 months of their relationship with the institution. The compound annual growth rate (CAGR) of the 2013-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector.

***http://www.fundacionsol.cl/wp-content/uploads/2017/07/Pobreza-Julio-2017-1.pdf

10. Avg. growth rates of monthly sales and net income, by gender

Source: Fondo Esperanza. BBVAMF calculations.

11. Avg. growth rates of monthly sales, by sector

Source: Fondo Esperanza. BBVAMF calculations.

12. Avg. growth rates of monthly net income, by sector

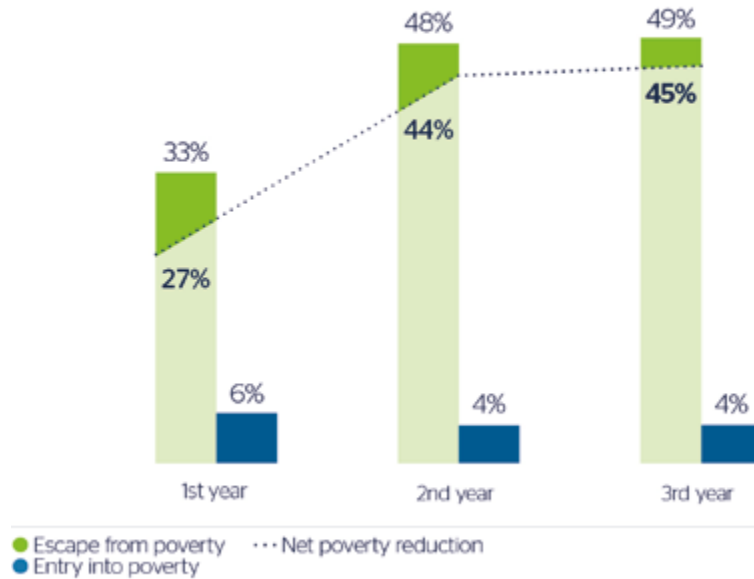Source: Fondo Esperanza. BBVAMF calculations.

2. Our clients' development

Escaping poverty

• With their best results coming in the first two years, nearly half our clients classified as *poor* succeed in getting over the PL. Entrepreneurs are capable of increasing their *p.c.* net incomes in a relatively short period of time.

• On average, 17% of clients classified as *non-poor* (at the outset) will fall under the PL, as they see their net incomes shrinking. Net poverty goes down by 45% in the second year.

• Net *p.c.* incomes of *poor* clients develop well, given that those who were originally in a situation of *poverty*, succeed in overcoming it with time. Note that Fondo Esperanza only updates its financial information on its clients in the fifth credit cycle (after approximately a year and a half with the institution, bearing in mind that the average credit period is four months); it is therefore possible that clients might have generated incomes over the PL earlier.

13. Net poverty variation

Escape from poverty ···· Net poverty reduction
Entry into poverty

Source: Fondo Esperanza. BBVAMF calculations.

14. Clients falling into and escaping poverty

Escape from poverty
Fall into poverty

Source: Fondo Esperanza. BBVAMF calculations.

15. Net income relative to the PL

— Ext. Poor (EP)   Disbursement 2017- EP
— Poor (P)   Disbursement 2017- P
— Vulnerable (V)   Disbursement 2017- V

Source: Fondo Esperanza. BBVAMF calculations.

13. Clients current at some point in 2017. Clients who have been written off are excluded from the escape from poverty figure. • Escape from poverty: clients in poverty (classified as *extremely poor* and *poor*) at the beginning of their relationship with the institution, who have climbed above the poverty line, divided by the number of clients classified as *poor* at the outset. • Entry into poverty: clients *not in poverty* (classified as *vulnerable* or *others*) at the outset, who have fallen into poverty, as a proportion of clients in *poverty* at the outset. • Net poverty reduction: Escape from poverty minus Entry into poverty. **14.** Clients current at some point in 2017. • Escape from poverty: Clients in poverty (classified as *extremely poor* and *poor*) at the outset, who have climbed above the poverty line, in terms of their own segment (*poverty*). • Fall into poverty: Clients not in poverty (classified as *vulnerable* or *other*) at the outset, who have fallen into poverty, divided by the number of *non-poor* clients at the outset.

- Variations in business net incomes and expenses are an important component of falling into poverty; this is the critical factor in 80% of cases recorded, in which net incomes do not grow, or growth is less than increased costs. Nevertheless, in the remaining 20% of cases, it is factors external to the business that are the cause, such as changes in the number of household numbers.

Indirect impact

- The entrepreneurs served by the institution are a source of employment: 7% of the total has at least one employee, which has an effect on the social development of communities served by Fondo Esperanza.

- After two years, 4.3% of clients are able to hire at least one person in their small enterprise.

- Furthermore, after three years, 12.7% of entrepreneurs will have improved their housing situation compared to the outset, whether because they have left their parental home and are living in a rented or owned home, or because they have scaled up from a rented home to one they own, which represents an improvement in their own standard of living and that of their household.

15. For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at the outset (the first credit), and shows the progress of monthly *p.c.* net income in each credit cycle, relative to each country's official poverty line. **16.** Clients who have been current at some point in 2017. Shows those clients who at the outset were classified as *non-poor* and who are currently under the poverty line (PL). **17.** Covers the number of employees working for clients current at 12.31.2017. **18.** Covers the increase in the number of employees compared to the outset, for clients current at 12.31.2017 in each cohort. Averages from cohorts 2013-2016 are shown. **19.** Proportion of clients current at 12.31.2017 of each cohort that has improved their living arrangements (moving from parental to a rented or own home, moving from rented to own home). Averages from cohorts 2013-2016 are shown.
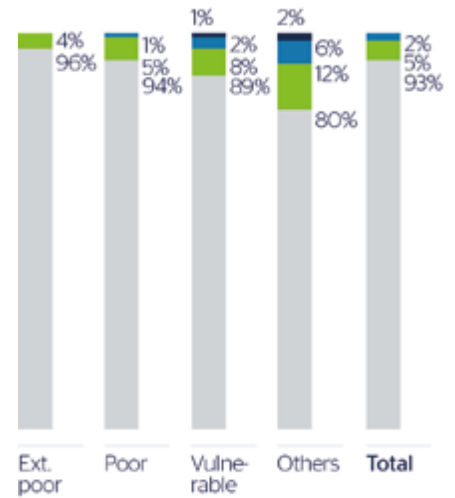
16. Clients falling into poverty

45% ↓Sales
20% = Net income
18% Household expands
35% ↑ Costs
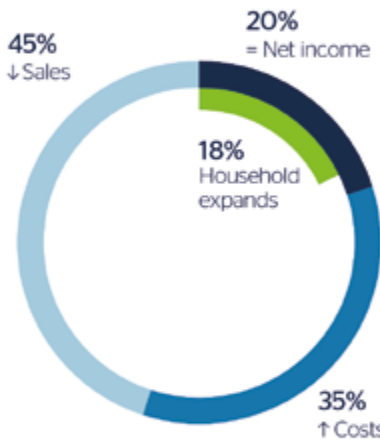
● Net income increases or remains the same
● Net income decreases, sales increase or remain the same
● Net income decreases; sales decrease
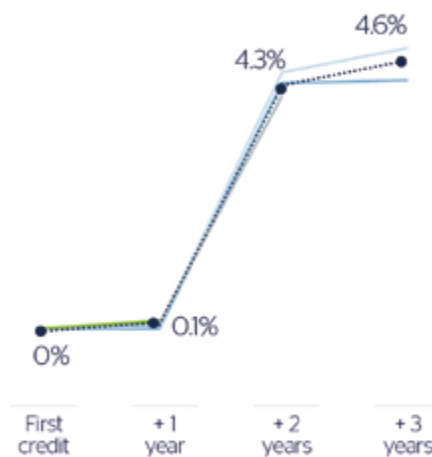
Source: Fondo Esperanza. BBVAMF calculations.

17. Micro-enterprise employee breakdown

No employees / 1 employee / 2-3 employees / 4 or more employees
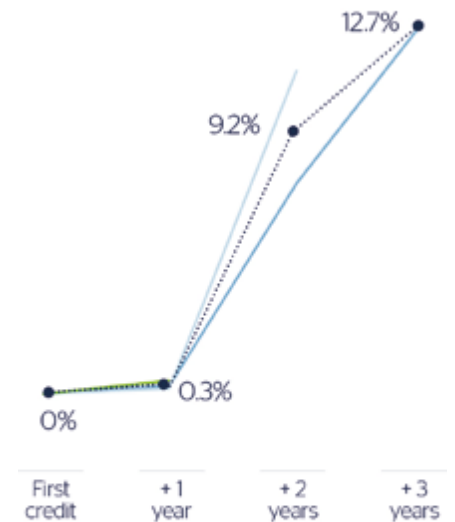
Source: Fondo Esperanza. BBVAMF calculations.

18. Job creation (by cohort)

0% · 0.1% · 4.3% · 4.6%

● 2013 ● 2015 ·●· Average
● 2014 ● 2016

Source: Fondo Esperanza. BBVAMF calculations.

19. Client improvement in housing (by cohort)

0% · 0.3% · 9.2% · 12.7%

● 2013 ● 2015 ·●· Average
● 2014 ● 2016

Source: Fondo Esperanza. BBVAMF calculations.

3. Relationships with clients

SDGs impacted

• Good results in the take-up of voluntary insurance policies over the last year is evidence of the institution's commitment to supporting clients in their overall development (13% have an insurance policy).

• The average disbursement to new clients served in 2017 was USD 346. This is a slightly higher sum (YoY +6.0%) than that disbursed to new clients in 2016.

• The loans have very short payback periods, so the amounts disbursed are low in comparison with monthly sales, although with the passage of time Fondo Esperanza clients are able to borrow higher amounts; after five years this has risen to an average of USD 1,440. This is a learning cycle in which the client can gradually take on higher leverage.

• Fondo Esperanza retains 44% of its clients after one year, and 74% of its clients sign up for a second loan.
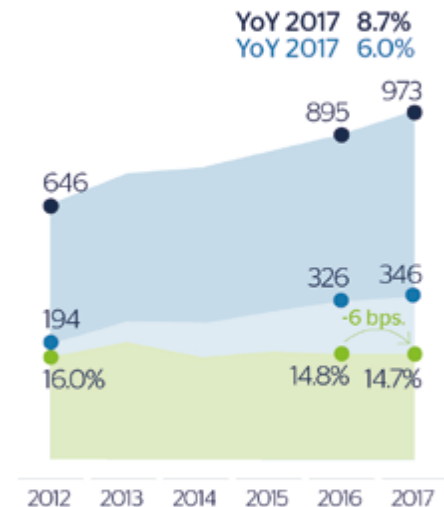
20. Clients current as of 12.31.2017. **21.** New clients (no previous loans) signed up over the year. Average disbursement, calculated as the average of the first disbursement for new clients in each year. Weight of the installment calculated as a ratio average (installment over sales). YoY: 2016-2017 annual growth rate. **22.** Change in the average disbursement per transaction by length of time since the client signed up. "Value at the outset" is the average of the outset value of 2012-2017 cohorts to which the average growth of the disbursement of cohorts 2012-2017 is applied. **23.** 'Retention': Percentage of clients in each cohort still current at each year-end and to 12.31.2017; shows averages from 2012-2017 cohorts. 'Recurrence': Clients served since 2011. % of clients that, after an initial loan, accesses another. Distance between cycles is the number of days between two successive disbursements.

20. Client linkage by product type

13%

Total credit clients
117,331

● Voluntary insurance coverage

Source: Fondo Esperanza. BBVAMF calculations.

21. Sales, disbursements (USD) and weight of installment for new clients

YoY 2017 8.7%
YoY 2017 6.0%

973
895
646
326   346
194
-6 bps.
16.0%   14.8% 14.7%

2012 2013 2014 2015 2016 2017

● Avg. monthly sales
● Avg. disbursement (USD)
● Avg. installment as % of sales

Source: Fondo Esperanza. BBVAMF calculations.

22. Average disbursement per transaction (by cohort)

USD 1,440
USD 1,354
USD 1,253
USD 1,060
USD 736
USD 273

First   +1   +2   +3   +4   +5
credit year years years years years
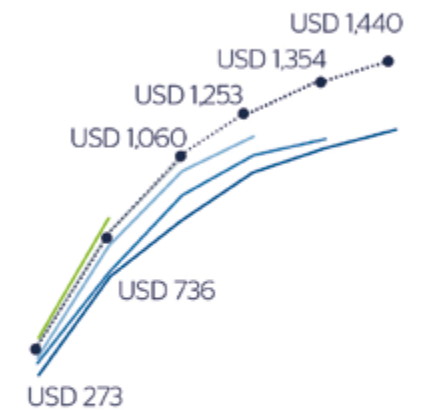
● 2012   ● 2015   ·●· Average
● 2013   ● 2016
● 2014

Source: Fondo Esperanza. BBVAMF calculations.

23. Credit client retention and recurrence

Retention

Start	100%
+1 year	44%
+2 years	30%
+3 years	24%
+4 years	21%
+5 years	19%

Recurrence		**Distance (days)**
Cycle 1	100%	0
Cycle 2	74%	168
Cycle 3	59%	160
Cycle 4	50%	161
Cycle 5	42%	157
Cycle 6 or +	38%	155

Source: Fondo Esperanza. BBVAMF calculations.