Measuring what really matters

2017 Social Performance Report

Fundación
BBVA MicroFinanzas

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Introduction
The Foundation's mission, aligned with the UN's Sustainable Development Goals
06

BBVA Microfinance Foundation
Measuring Social Impact
63

Colombia
Bancamía
125

Peru
Financiera Confianza
151

Dominican Republic
Banco Adopem
177

Chile
Fondo Esperanza
203

Chile
Emprende Microfinanzas
219

Panama
Microserfin
239

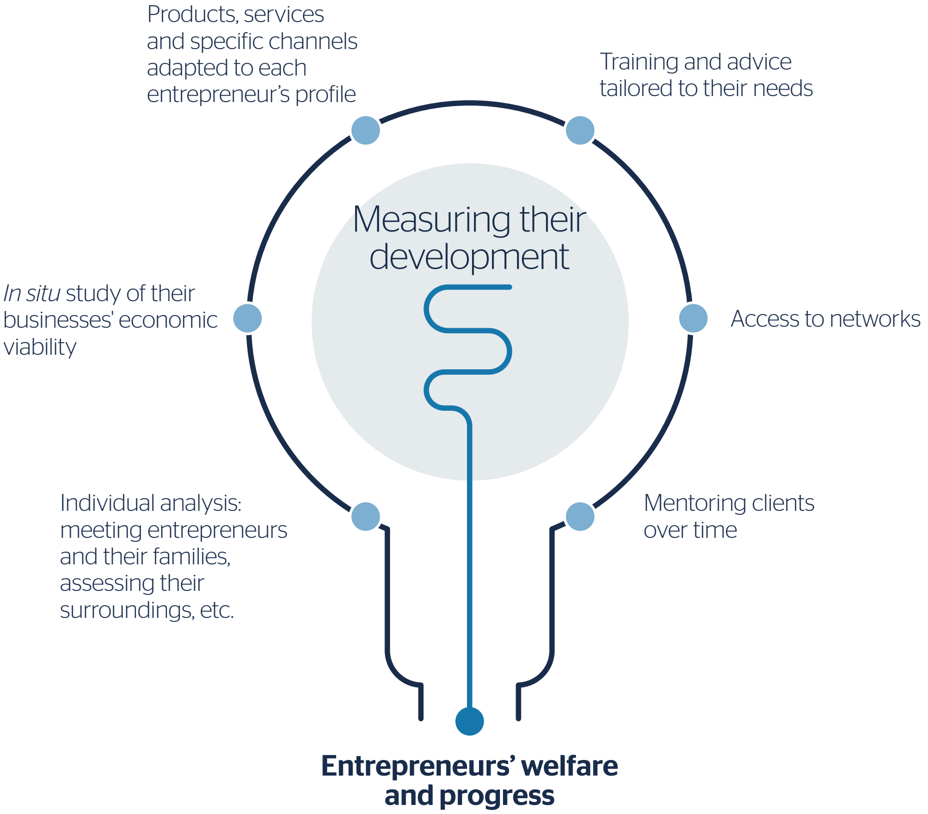
The sustainable and inclusive economic and social development of vulnerable entrepreneurs: our mission

BBVA Microfinance Foundation was set up in 2007 by BBVA as part of its corporate social responsibility to use its more than 150 years of experience to support vulnerable people with productive activities to improve their lives. Over the 10 years we have been working, we have seen that providing low-income and excluded entrepreneurs with the right financial products and services over time is key to generating economic and social development, mitigating poverty and its consequences. That is why our priority is to drive the sustainable and inclusive economic and social development of low-income people through our proprietary methodology: Productive Finance.

We use this methodology in five Latin American countries, implemented in six microfinance institutions. We put people, low-income entrepreneurs, at the heart of all our activity, supporting them with financial products and services, advice and training to ensure their progress. The Foundation also keeps another core focus in mind in its everyday work: transforming the microfinance sector.

Productive Finance

This entrepreneur-centered model promotes their sustainable development through the net incomes they generate in their businesses and helps them to achieve long-term success.



Products, services and specific channels adapted to each entrepreneur's profile
Training and advice tailored to their needs
Measuring their development
In situ study of their businesses' economic viability
Access to networks
Individual analysis: meeting entrepreneurs and their families, assessing their surroundings, etc.
Mentoring clients over time
Entrepreneurs' welfare and progress

BBVA Microfinance Foundation

1,941,232
Total entrepreneurs

8,051
Employees

514
Offices

USD 1.14 billion
Gross portfolio

USD 1,308
Average loan

USD 10.80 billion
Disbursed 2007- 2017

Credit clients at the close of 2017

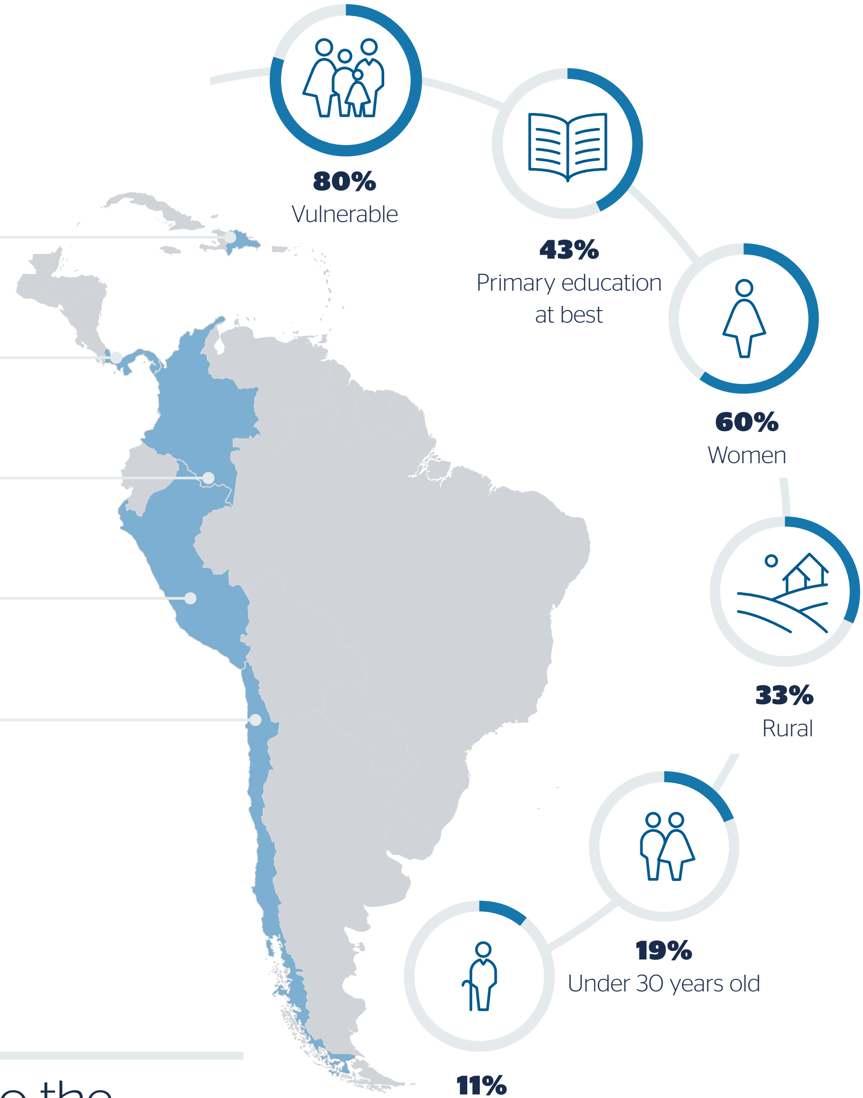
Dominican Republic
Banco Adopem

Panama
Microserfin

Colombia
Bancamía

Peru
Financiera Confianza

Chile
Fondo Esperanza
Emprende Microfinanzas



80%
Vulnerable

43%
Primary education at best

60%
Women

33%
Rural

19%
Under 30 years old

11%
Over 60 years old

BBVAMF contributes to the development of the microfinance sector

- Innovation
- Good Governance
- Measuring social impact
- Training
- Women's empowerment
- Regulatory framework

Transforming our world

Committed to meeting the UN's Sustainable Development Goals

> *"The BBVA Microfinance Foundation is a tool for improving people's futures. It is clearly in line with BBVA corporate culture and with the UN Millennium Development Goals – to which we specifically want to contribute"* Francisco González, BBVA Group Executive Chairman

The Foundation's mission is aligned with the Sustainable Development Goals (SDGs) of the 2030 Agenda, the road map agreed on by United Nations Member States to transform our world. An action plan in favor of the people, the planet and prosperity, to ensure that no one is left behind. 17 goals and 169 inter-connected targets that recapture the progress achieved with the Millennium Development Goals (MDGs) which inspired them and which were in place until 2015.

In 2007, when the Foundation was launched, Francisco González, BBVA Group Executive Chairman, established this link with the MDGs, which endures with the SDGs: "BBVA Microfinance Foundation is a tool for improving people's futures. It is clearly in line with BBVA corporate culture and with the UN Millennium Development Goals – to which we specifically want to contribute."

The 17 Sustainable Development Goals recognize the importance of financial inclusion and microfinance in reducing poverty. Its eradication, which is indispensable for sustainable development, is the greatest challenge faced by the world, which is why SDG 1 states: "End poverty in all its forms everywhere". Ending poverty is also our *raison d'être* and the starting point for this report, in which the SDGs are the storyline that binds our work.

Our reason for being

2.03 billion people with incomes of under USD 3.2 a day

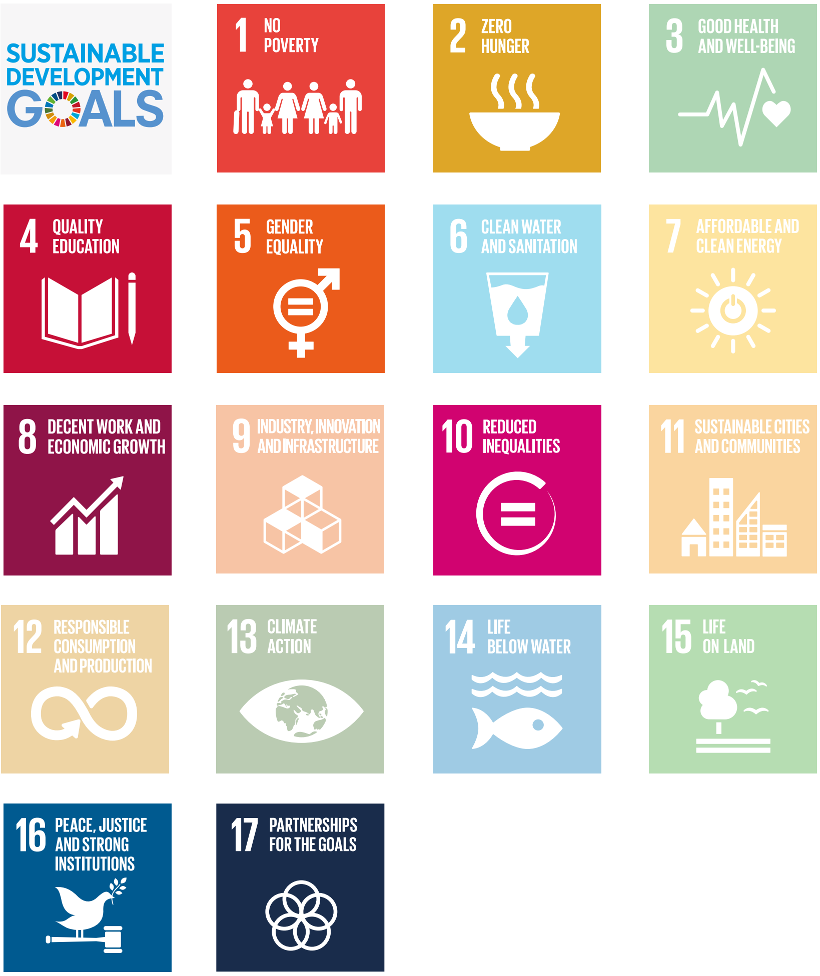
2 billion people excluded from the financial system

77% of the people who escaped poverty did so thanks to entrepreneurship, with financial exclusion as their main obstacle

Source: World Bank

The Foundation specifically impacts on eight of the seventeen SDGs

The Foundation's activity has a specific impact on eight of the goals, starting with SDG 1 and its target 1.4: "By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to financial services including microfinance" and ending with SDG 17 "Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development". Our day-to-day activity also encompasses other SDGs: SDG 2, SDG 4, SDG 5, SDG 8, SDG 10 and SDG 16.


SUSTAINABLE DEVELOPMENT GOALS
1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

We innovate to transform our world

The Foundation provides an innovative vision of the microfinance sector, building on the knowhow of its founder BBVA, the local experience of our institutions and the work of our more than 8,000 employees.

We invest in the digital revolution and new waves of innovation as the means of transforming financial inclusion: we are working from the banking core, the technology base of our institutions, on a mobility strategy that factors in the most advanced risk models and the design of new products and services to maximize our clients' progress. All this, together with agile, efficient processes that ramp up scale and scope even in the poorest, most remote areas. We also support social innovation in training, and in how we reach the most excluded segments. With innovation in our DNA, this is how we are transforming the sector to bring the age of opportunity to everyone.

Backing todays and improving tomorrows

SDG 1

No poverty

Goal

End poverty in all its forms everywhere

Target 1.4

By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, and access to financial services, including microfinance

1 NO POVERTY

Poverty is a complex, multi-dimensional phenomenon that goes beyond income scarcity. The 2030 Agenda acknowledges that eradicating it in all its forms and dimensions is the greatest challenge faced by the world and an indispensable requirement for sustainable development. According to the United Nations, to achieve SDG 1, economic growth has to be inclusive to create sustainable jobs and promote equality.

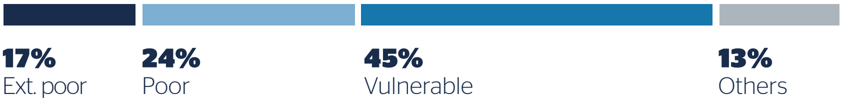
In Latin America a new category has come into use, that of vulnerable people, in addition to the 186 million poor people in the region, according to the UN Economic Commission for Latin America and the Caribbean (ECLAC). Even though they are above the poverty line, vulnerable people are at a high risk of falling back. This socio-economic group is currently the largest of all, accounting for 38% of the Latin American population, according to the most recent data from the Inter-American Development Bank (IDB), ahead of the middle classes (33%) and those in poverty (26%). Although the MDGs reduced poverty down from 45%, ECLAC has warned that it has been on the rise again since 2015. For this reason, in the SDG era, the main challenge is still that of eradicating poverty in the region, where two out of every three people are poor or vulnerable, according to the World Bank.

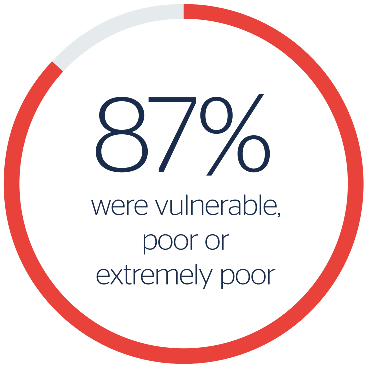
With this goal, BBVA Microfinance Foundation estimates that in 2030, it will have delivered over USD 25 billion in productive loans to reduce poverty. Working from this premise, we measure the progress of entrepreneurs over time and keep track of how their businesses grow.

We are bringing innovation to microfinance and we put it at the service of entrepreneurs to encourage their development and reduce poverty. Marcos, Marcela, Lucy, Juan, Adelaida and Luz are, together with the nearly 2 million people we serve, the real protagonists of our story. With their efforts, they prove that, given the opportunity, they can contribute not only to their own progress but also to that of the world around them. Sustainable development is as essential for them as it is for transforming the planet and complying with the 2030 Agenda.

The nearly two million people whom we serve are the real protagonists of our story

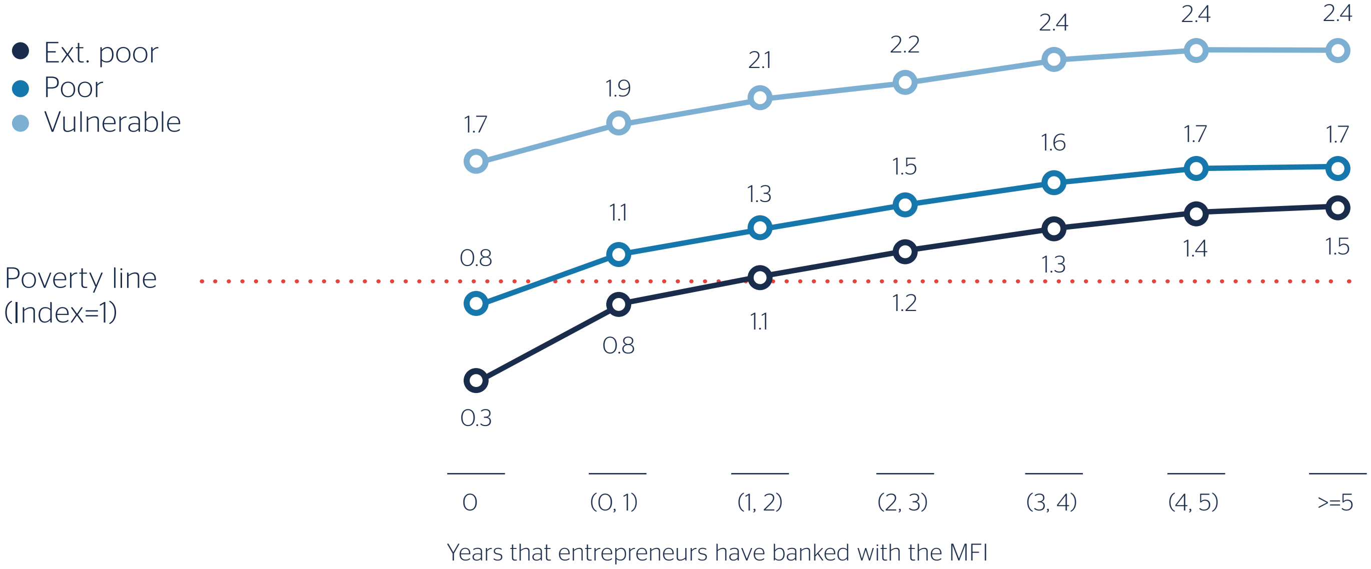
Situation at the outset of the entrepreneurs served since 2015





Per capita monthly income relative to the poverty line, change since outset *

*Entrepreneurs served since 2015



Extreme poverty line

Below this threshold, incomes are insufficient to pay for a food basket that satisfies minimum nutritional needs.

Poverty line

Below this line, minimum nutritional, clothing and housing needs cannot be met.

Vulnerability line

The vulnerability curve identifies people who have overcome the poverty line but have a high probability of falling back below it.

In its measurement, the Foundation adapts to the poverty lines set by each country, and sets the vulnerability line at a multiple of three times the poverty line.

Innovation to end poverty

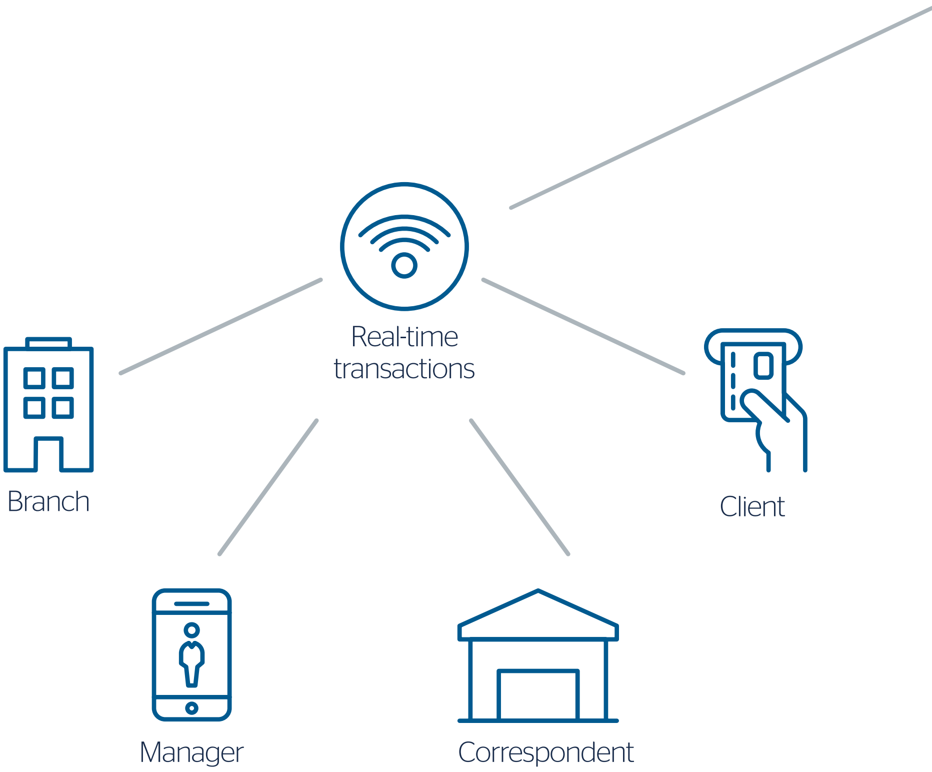
The Foundation offers services to the poor and vulnerable people who are excluded from the financial system. We constantly work to become more innovative and be more beneficial to them, with products and services that are tailored to their needs.

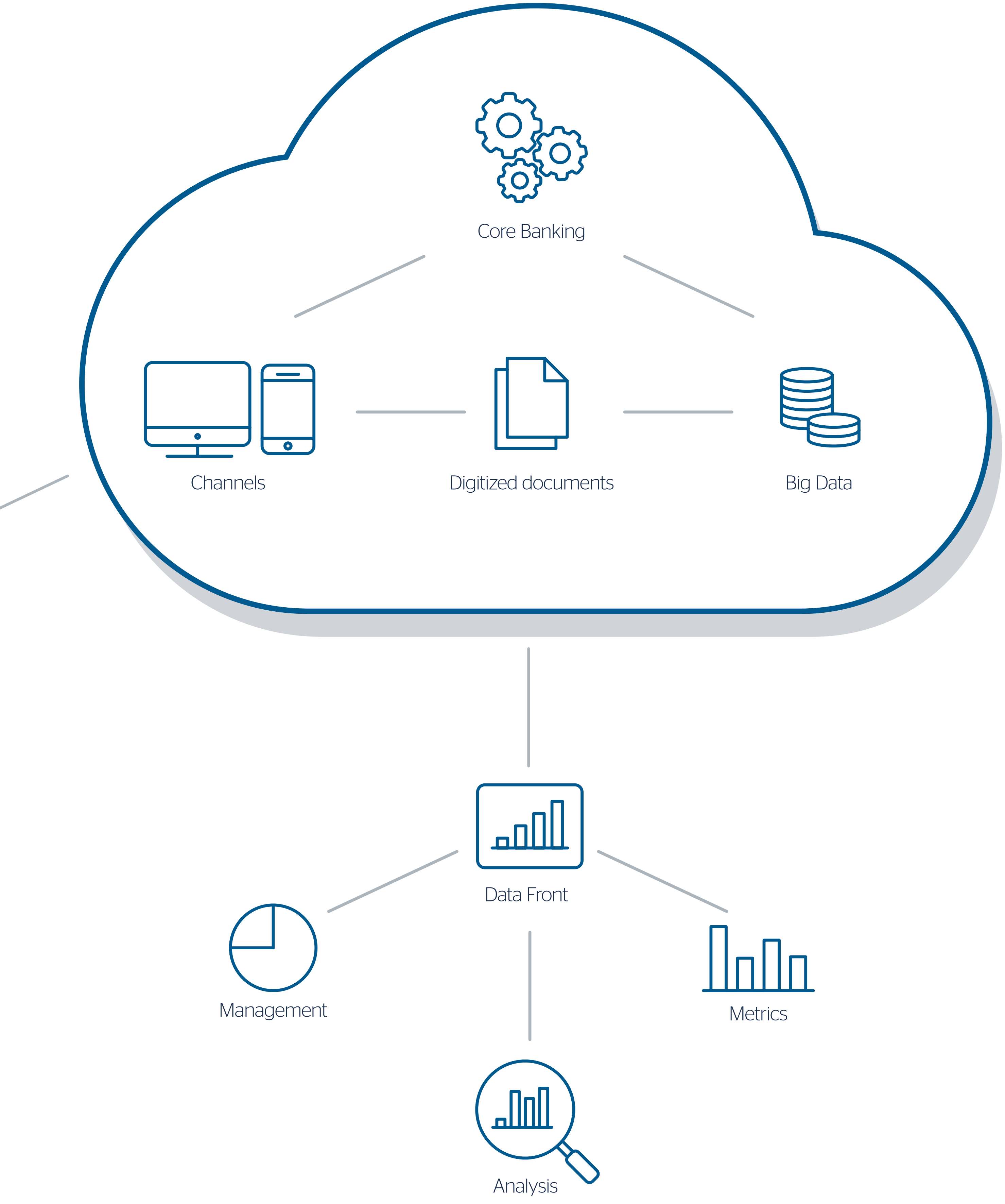
We promote economic development and inequality reduction, with advanced risk management and models, found in the most demanding banking environments, brought to the world of microfinance. We implement shared cloud technology solutions in the Foundation Group: a banking core that forms the hub of all our activity, multi-device mobile solutions to provide online services to entrepreneurs, document digitization to improve client service processes and to save costs, and a data repository to understand their needs better and faster. This technology hub means that our new products and all our new channels can be set up quickly and flexibly, and as efficiently as possible.

To all intents and purposes, we carry the branch office in a mobile device to reach remote populations, rural areas where, according to the UN Food & Agriculture Organization (FAO), 75% of the poverty in developing countries is concentrated and where there is less access to financial services. Thanks to technology, loan officers can reach these entrepreneurs with all the information and transactions on hand, to make the procedures more straightforward and avoid unnecessary trips for clients. Thus, we have a complete and innovative model that supports vulnerable people.

BBVAMF Group's technological platform

Synergies
Speed
Efficiency
Flexibility




Core Banking
Channels
Digitized documents
Big Data
Data Front
Management
Metrics
Analysis

Our protagonists

1 NO POVERTY

4 QUALITY EDUCATION

Marcela Aedo
The training she received from the *School for Entrepreneurs* not only boosted her business, but also her self-confidence, improving her future and that of her family.

Lizandro Ramón (Officer)
"The mobility strategy is a breakthrough in time, speed and motivation"

2 ZERO HUNGER

Marcos Flores
He has succeeded in progressing and creating employment in his community, thanks to technology. The challenge is to adapt it to the work done by farmers like him.

Martha Bernal (Officer)
"Tablets have sped up our response times, especially when we are advising clients. We can provide them with information on the spot, access their credit history and adapt their loan payment dates to their circumstances"

5 GENDER EQUALITY

Lucy García
She went from driving a motorcycle-taxi to managing an entire fleet, providing jobs for over 200 families in her community. Underestimating women like her is a common mistake.

Angélica Albornoz (Officer)
"What is inspiring about all this is knowing that we are eradicating poverty; knowing that I can help someone, and that behind that woman is an entire family"

8 DECENT WORK AND ECONOMIC GROWTH

Juan Disla
At the age of 65 he can live without worries, knowing that he is protected by a microinsurance policy. With his savings, he hopes to buy a plot of land to extend his business and give his seven children a future.

Macarena Neira
(Sales assistant)
"Our model involves an assessment, field work in which the officer personally visits clients' home-based businesses to see whether the entrepreneur's standard of living has changed"

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Luz Dary Paz
Even though she lives in a conflict zone in Colombia, she has managed to rebuild her life and bring up her children without having to flee.

Luis Salazar (Supervisor)
"Many of the refugees we serve come from humble backgrounds whose primary need is financial support and advice to set up a business"

10 REDUCED INEQUALITIES

Adelaida Morán
She has done so well that she dares to be ambitious, because she has seen what she can do with small loans and with advice from the officers: to reach her goals and continue making progress.

Daniel Aguiar (Officer)
"Being able to help entrepreneurs when they ask for a loan and to see the progress they have made with that money over time, fills me with satisfaction"

17 PARTNERSHIPS FOR THE GOALS
SDG

We work in partnership with major local and global players in the field of poverty and development.

SDG 2

Zero hunger and sustainable agriculture

Goal

End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Target 2.3

By 2030, double the agricultural productivity and incomes of small-scale food producers, particularly women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to financial services.

We are never going to end poverty until we reach the most remote populations. It is there, in rural areas, where the highest levels of poverty and financial exclusion persist, because of the difficulty in getting to them. Narrowing that gap and supporting smallholders is a major challenge if we are to achieve SDG 2, because by 2020, 60% of poverty will still be rural, according to the FAO.

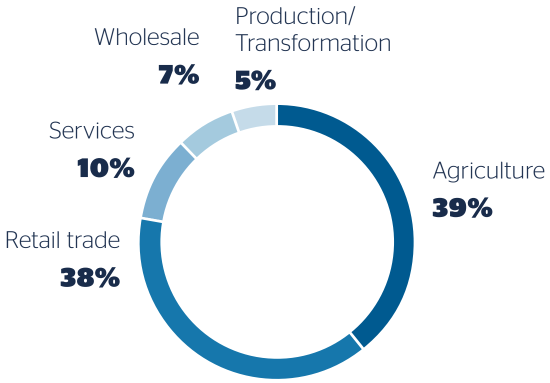
BBVA Microfinance Foundation brings financial services closer to the remotest corners of Latin America, contributing to their development. It invests in innovation to make its officers' work more agile; officers who travel hundreds of kilometers to the entrepreneur with their mobile devices, allowing them to access their entire credit history and enabling them to open applications for new loans, give advice, etc. This way, we avoid scenarios where entrepreneurs would waste time and money travelling to the branch office, leaving their business unattended.

Farmers account for a significant proportion of the Foundation's rural clients, and serving them presents an additional challenge. Family incomes linked to the sector depend on the quality of the harvests, productive cycles and the vagaries of the weather, often affected by climate change. These are circumstances which forced Marcos Flores to make an investment to alter his planting methods. They also require officers such as Martha Bernal to have the necessary skills in agronomy to give advice to entrepreneurs, and to offer them the most appropriate and tailored products for them.

According to the FAO, growth in agriculture is particularly efficient to reduce hunger and malnutrition, so investing in the Agribusiness sector helps not only to put a stop to hunger, but also to mitigate poverty. For the BBVAMF, developing a value proposal and a specific model of service for this segment is key to complete its mission.

Our product *Agrocrédito*, in the Dominican Republic, won the Inter-American Development Bank (IDB) 2017 *Award for Financial & Entrepreneurial Innovation* because it promotes financial inclusion and strengthens the productivity and resilience of small farmers. These rural microloans take into account the sector's productive cycles, that vary according to activity. The IDB also highlighted the role of *Atamovil*, a digital device used by officers in the country to manage loan applications outside the office, reducing operating and transactional costs. Furthermore, a number of initiatives such as the *MEbA* (Microfinance for Ecosystems-based Adaptation) program in Colombia and the *Finanzas Rurales y Ambiente* (Environment and Rural Finance) program in the Dominican Republic, adhere to the efforts of the BBVAMF in favor of the environment.

Economic activity in rural areas*



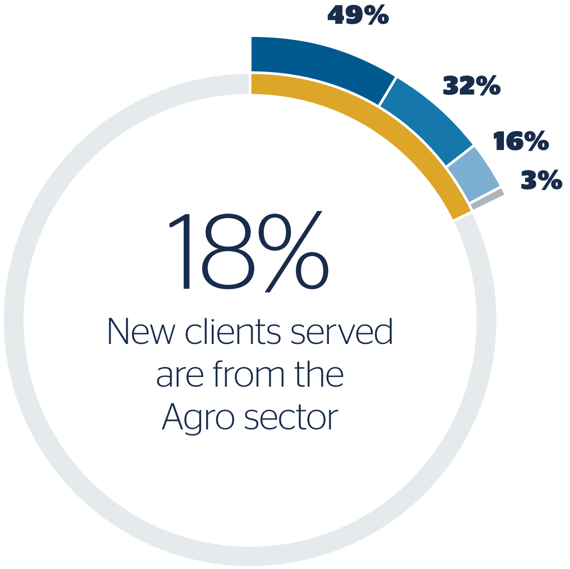
33%

of the Foundation's entrepreneurs live in rural areas

Percentage of rural clients in the BBVAMFG current at 12.31.2017

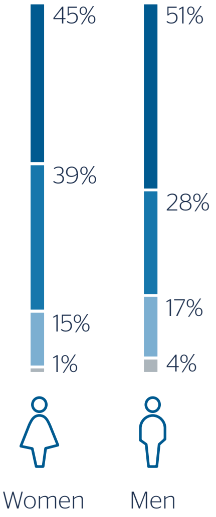
New clients' activity **

- ● Agriculture
- ● Livestock
- ● Mixed farming
- ● Others



18%

New clients served are from the Agro sector



Entrepreneurs served between 2015 and 2017***

20%

annual growth of entrepreneurs' assets in the Agricultural sector

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*Client breakdown by sector, served between 2015-2017 (current at 01.01.2015 plus all those served, whether new or returning, since then)

**New clients served in 2017, breakdown by activity and breakdown by gender according to activity

***Clients current at some point in 2017 with data updated within the previous 12 months. Average CAGR for 2012-2017 cohorts

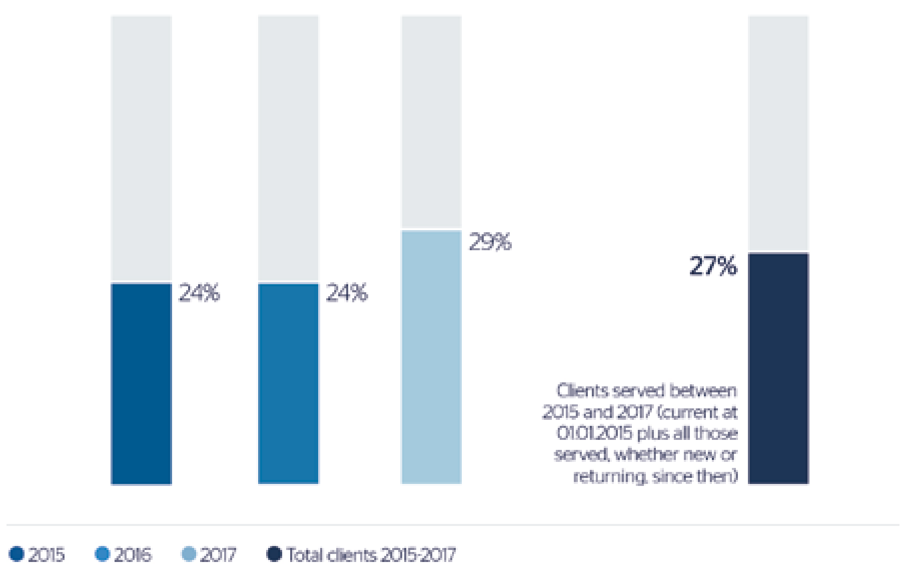
Access to financing for rural women

Women face the greatest obstacles in joining the job market and accessing financial resources in rural areas. That is why many of them often work in trade or other activities with lower barriers to entry. Even so, rural women are increasingly overcoming them and taking up agricultural activities, as is the case with the women entrepreneurs served by the Foundation.

Women's participation in the Agricultural sector has a positive effect on their families' nutrition and on improving their communities' food security. In particular, more women than men work in animal husbandry.

In the Dominican Republic, our *Agromujer* loan takes into account the fact that rural women who are starting an enterprise lack collateral, one of the barriers to entry in formal banking. Together with the loan, we offer financial training, entrepreneurship courses and technical assistance.

Percentage of rural women in agricultural activities

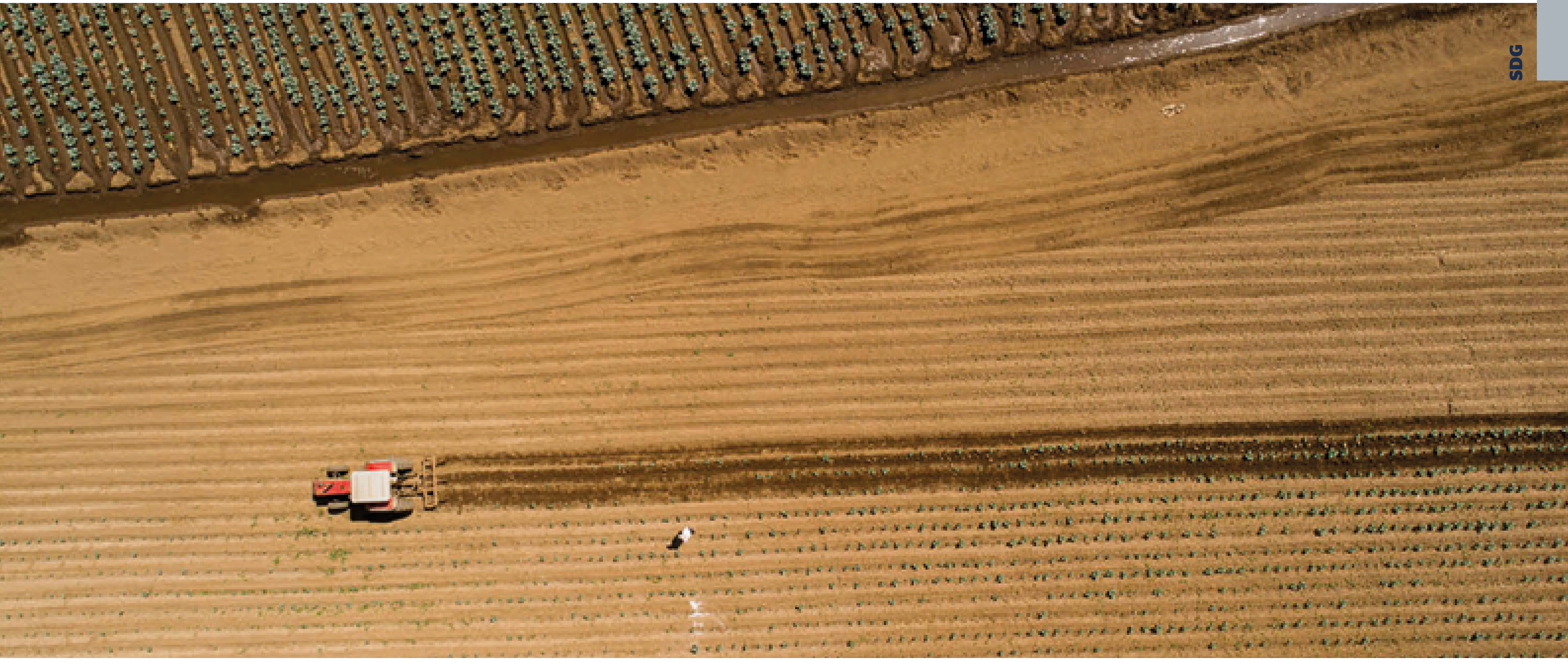


29% of new rural women clients served in 2017 are taking up agricultural enterprises

Marcos Flores' story

Marcos is convinced: the challenge is to adapt technology to the work that farmers like him have to do. In the digital era, this enables them to grow, but the reality shows that many do not have this opportunity. That is why in the Foundation we are committed to bringing innovation closer to them; this is what all of us intend to achieve. Thanks to this effort, entrepreneurs like Marcos, who are not yet using modern tools, see how Chilean farmers can tackle the major changes that are transforming their sector. He started off with half a hectare and now he has 20, where he grows native corn, cauliflower and broccoli.

By attending specialized training and workshops, he learns about new agricultural developments and techniques that would be otherwise out of his reach. His credit officer gives him the technical support he needs to apply what he has learned and improve his crop, as well as adjusting his loan repayments to his seasonal cash flow. "Technology is important in order to



By supporting smallholder farmers, we are promoting more efficient working practices that help rural communities develop

make progress; nowadays you can invoice over the phone, and buy materials with bank transfers… But you have to know how to do it", he points out.

Although he knows that the land is the great determinant, he explains how in recent years climate change has forced him to adapt to unforeseen scenarios: "I sow at particular seasons to prevent possible losses. We can't take risks as we used to, the climate has changed a lot and we have to be vigilant all the time".

With its support for smallholders, at the Foundation we promote more efficient work practices that help rural communities develop, where most people work, and we strengthen their resilience to the effects of climate change. "With my job, I am generating employment, helping my family, paying for my children's education… that is priceless". As priceless as his contribution to SDG 2, like that of over 200,000 farmers whom the Foundation has served in the last three years.

Products and services for the agricultural sector

Dominican Republic

Agrocrédito
This is part of the *Finanzas Rurales y Ambiente* [Environment and Rural Finance] program and won IDB's *Inter-American Award for Financial and Business Innovation*.

Panama

Ruralfin
This includes training in new agricultural techniques, financial education and mentoring throughout the credit cycle.

Colombia

Agromía
The product line enables payment dates and methods to be tailored to the client's cash flow.

Rural Finance Initiatives (in conjunction with USAID*)
Targets municipalities affected by the armed conflict that are under reconstruction.

Peru

Agricultural Credit
Meets this sector's needs, adapting the timing of payments to the crop cycle.

Cooperation with USAID*
Through an initiative to support farmers who replace illegal crop production with cocoa bean crops.

Chile

Farming loans
For agricultural entrepreneurs.

*United States Agency for International Development

Interview with Martha Bernal, officer in Colombia

The Foundation, environmentally aware

MEbA (Microfinance for Ecosystems-based Adaptation)

In Colombia, this program provides vulnerable rural and periurban populations in the Andean Region with products, services and advice on how to adapt to climate change while raising their incomes. In 2017, together with UN Environment and ICAM College (Institute for Agribusiness Science & the Environment), we launched the *Fincas Demostrativas* [Pilot Estates] initiative, to teach entrepreneurs about adaptive response measures. The initiative includes access to credit so that they can implement these measures.

Crediverde

The 'green' credit line offers its users the option to acquire eco-efficient technologies in the countryside or the city. The aim is to improve small businesses by providing access to renewable energies that are more environment-friendly and, in the long term, generate higher returns.

FRA - *Finanzas Rurales y Ambiente* [Environment and Rural Finance]

In the Dominican Republic, this initiative includes other "green" finance programs for entrepreneurs who invest in looking after the environment, as well as *Agrocrédito*, such as *AgroPyME*, *Ecocrédito and Agromujer*. It also provides the Financial Education program for the rural population.

Five years ago, Martha left her job as a researcher in agronomy to work full time with the Foundation's entrepreneurs in Colombia. Her vocation for rural development has led her here, where she manages the portfolio of over 200 people, many of them working in the Agricultural sector. A few months ago, she swapped her notebook for a tablet, which enables her to speed up processes, provide the entrepreneur with a more immediate service and organize her daily tasks and visits with a geolocation system.

How does your training as an agronomist help you in the role you have in the Foundation?

I understand crop and production cycles and I know when my clients are going to have revenues, depending on what they sow. In Colombia, people tend to diversify their crops, so as well as potatoes they grow lettuce, spinach, cilantro... This gives them higher revenues because the harvest periods are different.

Why is it important to adapt the products and the advice you give to the Agricultural sector?

Agricultural credit products have different payments depending on the entrepreneurs' needs. We adjust them automatically to when they are generating revenues. Loans for all other activities, on the other hand, are paid back every month. Additionally, we look at how clients handle their crops and we advise them on market conditions, whether selling prices are good or unfavorable to them. In general, they have a lot of experience, so, depending on what they are planning, they make a go of it given their knowledge of traditional production methods.

How has technology changed your job?

When I go visit my clients, I finish with nearly all the paperwork completed. Tablets have brought response times down, particularly when it comes to advice. We can give them the information on the spot, access their credit history and adjust the loan payments to their circumstances.

How have entrepreneurs reacted to this innovation?

Most of them are already familiar with tablets, but at the beginning their greatest concern were the changes involved, and whether the processes were going to be straightforward. All new formats take a bit of time to get used to, but it is well worth it. On one of the first visits using the tablet, the client thought we were going to take photos!

SDG 4

Education for all

Goal

Ensure inclusive and quality education for all and promote lifelong learning

Target 4.4

By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for entrepreneurship.

4 QUALITY EDUCATION

Education is one of the cornerstones of people's economic and social development. An essential foundation on which to build a more inclusive and prosperous society. That is why at the Foundation we assume this responsibility and support training and financial education, to contribute to the progress and sustainable development of our entrepreneurs.

So that they make the best decisions in their businesses, we need to provide training in skills, particularly when 43% don't have training or have primary education at best. Just in 2017, we gave training to over 420,000 people in a number of programs such as *Educación Financiera* [Financial education] in Colombia, *Palabra de Mujer* [Woman's Word] in Peru and the *Escuela de Emprendimiento* [School for Entrepreneurs] in Chile. It was that very school where Marcela Aedo attended, and thanks to which she improved her life and that of her children. She is one of over 160,000 Chilean women entrepreneurs who have passed through its classrooms in 2017.

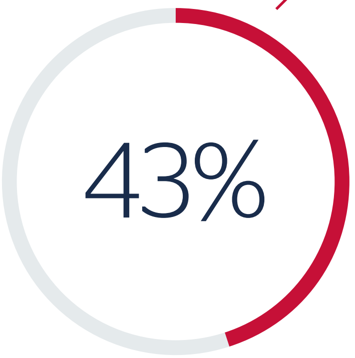
We also design financial products and services that facilitate access to education and even help them make their greatest dream come true: for their children to have better education and more opportunities in the future, such as going to university.

None of this would be possible without our commitment to train our employees. We have invested in our Microfinance Campus, an innovative digital platform, to enhance and improve the skills of those who contribute to our entrepreneurs' success. We are particularly proud of our *Amigotchi* app, a training program which in a straightforward, intuitive way helps our officers to extend their understanding of management and leadership, "mentored" by the virtual character, Simón.

Lizandro Ramón, who started out as a loan officer is now a branch manager, training teams, explains that this technology is turning training into a life-changing tool.

> *We provide training, particularly financial education, so that our entrepreneurs can make the best decisions in their businesses*

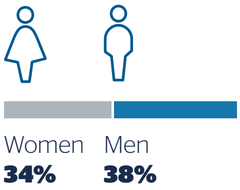
The academic backgrounds of our entrepreneurs



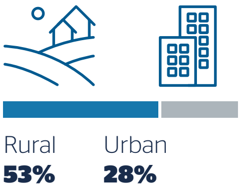
have no education or primary education at best

Current clients at 12.31.2017

Entrepreneurs who have primary education at best, by gender:

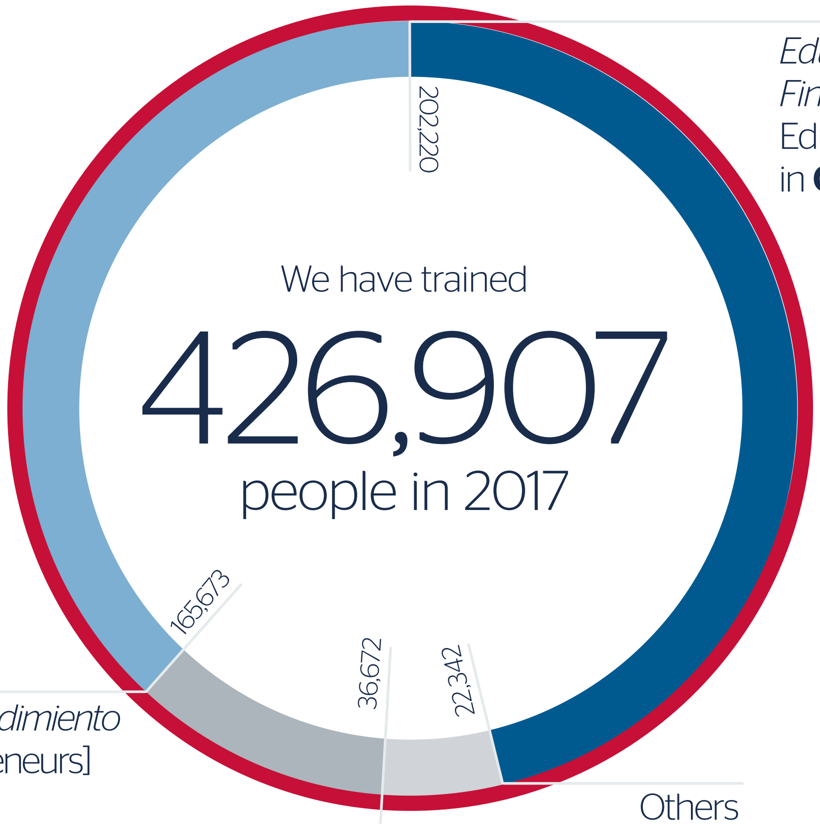


Entrepreneurs with primary education at best, by environment



New clients served during 2017

Our training programs



Educación Financiera [Financial Education] program in **Colombia**

Escuela de Emprendimiento [School for Entrepreneurs] in **Chile**

Others

Palabra de Mujer [Woman's Word] skills program in **Peru**

A benchmark in the region: *School for Entrepreneurs* in Chile

Among the training programs run by the Foundation, the *School for Entrepreneurs* offers a socially innovative example.

It includes psycho-social support and 18 educational modules in four study areas: business development, family welfare, empowerment and social capital. The plan is flexible, tailored to students' needs and learning speed, and uses a participative adult education methodology based on learning by doing, called "Experiential Learning" (David Kolb), in which the entrepreneurs are the protagonists.

165,673	entrepreneurs trained in 2017
82%	women
50,676	hours of lessons delivered
2	year courses

Marcela Aedo's story

Gabriela is studying a university degree in English. She has managed this thanks to her mother, Marcela, a 50-year old woman who in the last seven years has changed the course of her life and the lives of her family members. Now she is independent and the head of household.

Until then, no matter how early she got up, or how much she sacrificed, she couldn't change her job, which prevented her from spending more time at home to look after her children, and which didn't give her enough money to pay the bills. She had lived in the countryside for years with her family, but

> *Without Marcela's determination to learn and grow, her children would not be at school, and she would not be in control of her life*

she had not lived off the land. One day she was given some hives and she began keeping bees. Because of the pesticides being used in the fields around her, they did not make much honey. That, together with her children's asthma, led her to try organic farming. In Chile, this accounts for only 0.1% of agricultural production, according to the European Institute for Research into Organic Agriculture (FiBL).

Without Marcela's determination to learn and grow, her eldest daughter would not be at university, the younger children would not be at school, and she would not be in control of her life. First as a beekeeper and then when she decided to diversify her enterprises with the support of the Foundation in Chile. There, she succeeded in learning at the *School for Entrepreneurs* how to get other business ventures off the ground, and to boost her self-confidence by proving that by her own efforts she has changed her future and that of her family.

There are lots of Marcelas in this report, who, together, contribute to meeting some of the Sustainable Development Goals that aim to transform the planet. They are examples of how our entrepreneurs turn out to be the architects of the better world we want to reach by 2030.

Financial products and services for education

We are fully aware of the importance of education for development, so we innovate in financial products (loans, savings, insurance, etc.) to lower the barriers for entry to education for entrepreneurs and their children. The Dominican product *Educa-T* is an example.

Educa-T, in the Dominican Republic, a loan that enables access to university

This program uses the agreements set up with 26 of the best universities in the country to make it easier for entrepreneurs to achieve their greatest dream: for their children to go to university, stopping the intergenerational transmission of poverty.

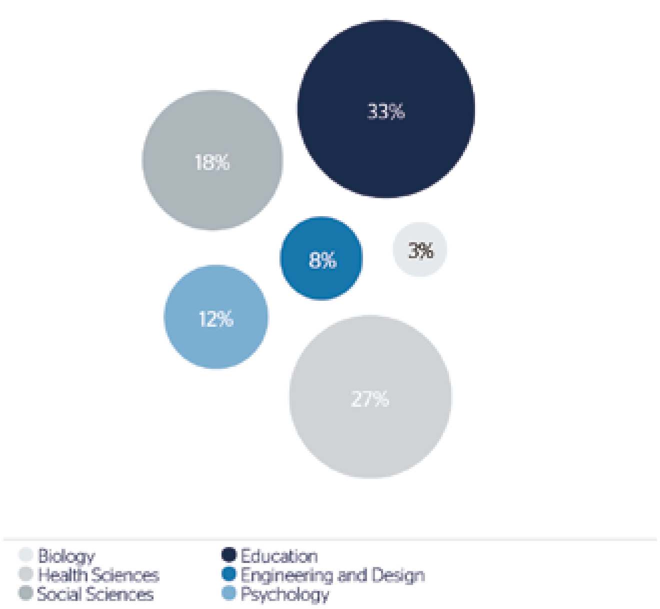
This line of credit covers the funding for tertiary studies, technical training and vocational courses. The most popular degrees studied are Primary education teaching and Medicine (14% and 12% respectively).

The beneficiaries of these loans who completed their studies obtained above-average marks (85 points, the average being 60).

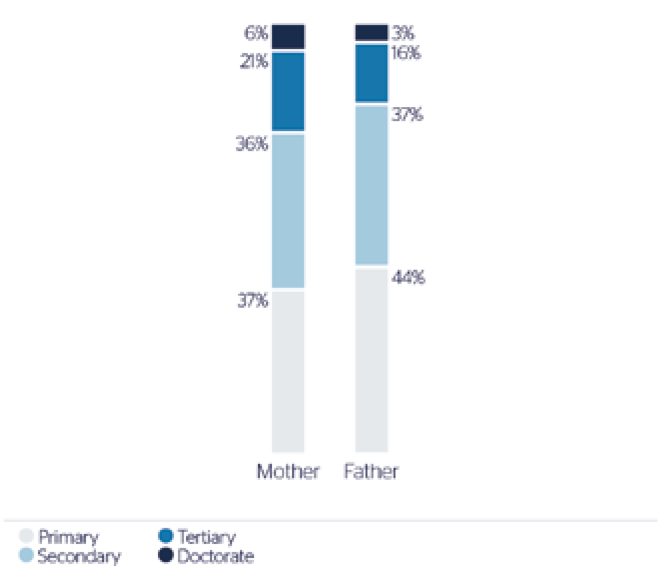
Parents' educational level

75% of the students served reach higher levels of education than their parents, increasing their likelihood of having better standards of living.

Breakdown of students by branch of study*



Parents' educational level *

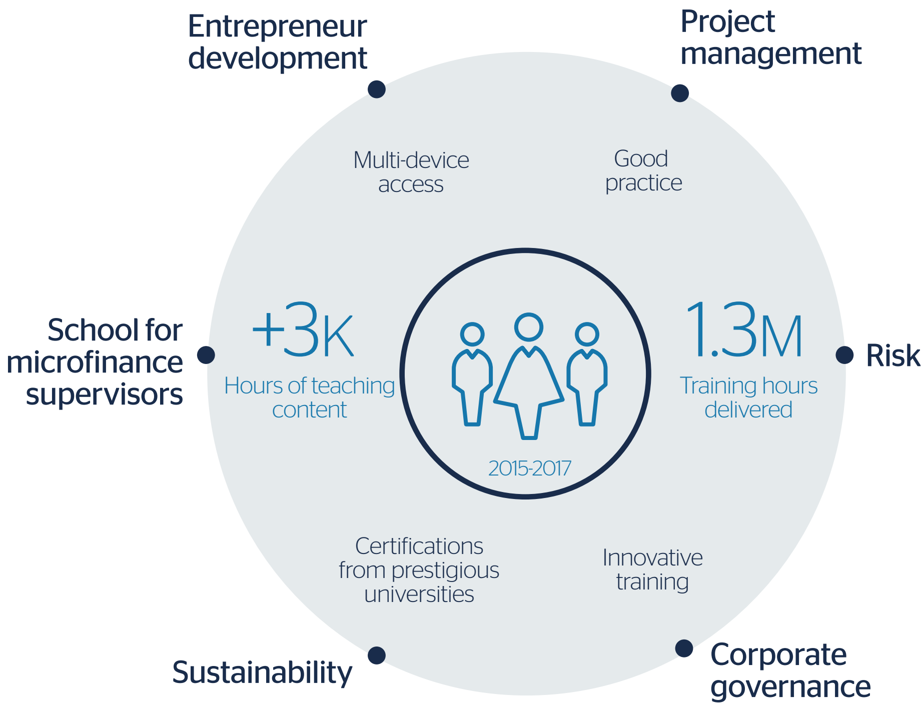


*Current clients at 12.31.2017

Training employees

See video

Microfinance Campus


Entrepreneur development
Project management
Multi-device access
Good practice
School for microfinance supervisors
+3K
Hours of teaching content
2015-2017
1.3M
Training hours delivered
Risk
Certifications from prestigious universities
Innovative training
Sustainability
Corporate governance

Amigotchi app

The program that won the most accolades on our Campus

- Team management
- Learn as you play
- Evolves for fast learning
- Awards and honorary mentions
- Simón, the virtual character who trains employees

Interview with Lizandro Ramón, officer in Peru

Lizandro is one of the Foundation's pioneers in Peru. He says that after all this time what motivates him is his passion for helping society and his country. He started as a loans officer and today, after spending hours in learning skills, such as credit risk or group management, he is the one training the teams of employees. Now he is a branch manager, with 22 people reporting to him. He has the technical and professional abilities that help vulnerable people become entrepreneurs and is one of the users of innovative methods such as *Amigotchi*, designed to improve the way in which entrepreneurs are served. The need to innovate is present at all levels of the Foundation.

Do you think we are making innovations in training?
Yes. Once you've been taught how to use the tablet, the mobility strategy is a breakthrough: in time, speed and motivation. I click and up comes the list of clients, their data and even their birthdays, which makes it easier to build a relationship. It is a very powerful tool!

Have you found the *Simón: Amigotchi* program helpful?

Was it effective?
It's attractive, dynamic, different. It's a game on a mobile phone that makes you think, putting you in specific scenarios and situations.

Does the training received by officers translate to the people they serve improving their businesses and their lives?
Everything the officer learns is taken on board as a lived experience, and this means that it trickles down to the entrepreneur. I have seen it for myself. I haven't just seen it, I've felt it. My training impacts the client.

SDG 5

Gender equality

Goal

Achieve gender equality and empower all women

Target 5.a

Undertake reforms to give women equal rights to economic resources, as well as access to financial services

5 GENDER EQUALITY

The achievement of full human potential and of sustainable development is not possible if one half of humanity continues to be denied its full human rights and opportunities. That is why it is critically important to incorporate gender perspectives systematically. The 2030 Agenda builds on this, indicating the need for women to have equal access to good quality education, economic resources and political participation; not forgetting the right to the same opportunities as men in employment, leadership and decision making at all levels.

Poverty is gender-biased: globally, more women than men are poor and they suffer greater financial exclusion. These are circumstances that their children inherit; it is often the women who bring them up on their own. According to the FAO, women reinvest up to 90% of their incomes in their household: in nutrition, health, education and activities that generate further income so that they can continue to make progress. That is why empowering them economically is a sure bet to the future: the impact is already seen in the next generation.

An example of this are the million plus women whom we mentor in the Foundation, who develop over time with adapted financial services, such as products to support their children's savings, microinsurance policies with coverage adapted to women's needs and Chile's group lending model. We also offer non-financial services such as training in business administration, budgeting and family welfare, self-esteem reinforcement and access to support networks, as well as financial education. Angélica Albornoz, an officer of the Foundation in Chile, is sure that the psychological support among women entrepreneurs in lending groups motivates them to overcome adversities and keep on working towards prosperity.

> *Poverty is gender-biased: more women are poor and suffer greater financial inclusion*

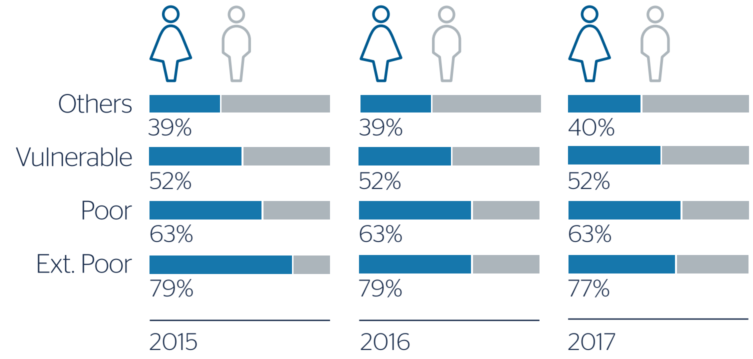
Nearly seven out of ten poor entrepreneurs we served over the last three years are women. They are capable of growing, even though they start out with less, and in spite of being in charge of more family members. 82% have dependants and the average family size is 3.2 people. Lucy García started a small business to support her children, whom she is bringing up on her own, and today she manages a fleet of motorcycle-taxis that service her community.

We are pushing through a cross-cutting strategy to encourage women's economic independence, listening to their concerns, their needs and the obstacles they face. Furthermore, we continue to work on the internal gender culture in the BBVA Microfinance Foundation Group, and support partnerships that create value for our women entrepreneurs.

Our women entrepreneurs

8 out of 10 of all our entrepreneurs who have succeeded in crossing the poverty line since 2015 are women.

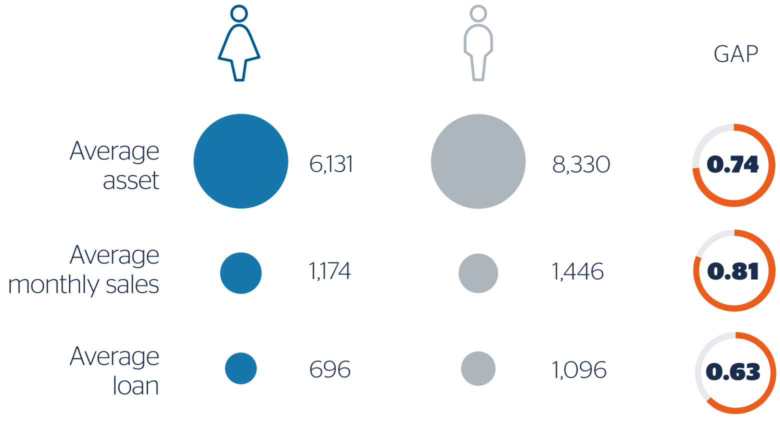
Our clients' initial vulnerability, by gender



Breakdown by gender and vulnerability of new clients served between 2015 and 2017

Assets, sales and disbursements. Gap between women/men

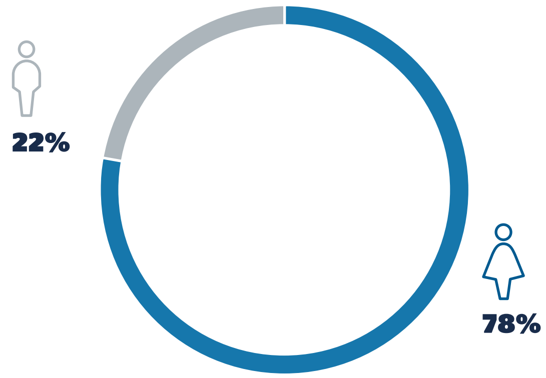
Our women entrepreneurs start from a more vulnerable situation. The assets of those who joined the Foundation in 2017 are only 74% that of the men, and their loans are 63%. However, the gap narrows when we look at their sales figures.



New clients in 2017 by gender

Entrepreneurs who escape poverty

Women entrepreneurs are more able to grow and escape poverty than their male counterparts, despite their lower levels at the outset and their greater family commitments.



Of total clients escaping poverty between 2015 and 2017

Lucy García's story

It was on *Esperanza* (Hope) Avenue, as chance would have it, in the Ate district, where Lucy challenged the opinions of those around her. A woman can't drive a motorcycle-taxi, they said, let alone make a living from it. Lucy not only had to cope with her husband leaving her, but also with the difficult task of bringing up her children. But there are few things stronger than the determination of a woman, of a mother in charge of her family.

She admits that it was anything but easy, but she never let herself give up. That is probably one of the secrets of her success, and what has led to her winning the first prize for the *Microentrepreneur of the Year* in Peru in the Trade category of *PREMIC 2017*. Supported by the Foundation, Lucy went from driving a motorcycle-taxi to managing a whole fleet of them, providing jobs for more than 200 families in her community. What is more, one of her daughters is currently a partner in the company, while the rest are all accomplished professionals.

Underestimating a woman like her is a common mistake. Aside from these women's daily grind, they also have to prove that they are indeed as capable as men and deserve to be treated in the same way. Their efforts do not go unnoticed, and the United Nations has dedicated one of its SDGs to gender equality, as a driver of economic growth, but above all, as a basic human right. SDG 5 is a call to the whole world to acknowledge the work of women in changing things and transforming the world.

Her determination to overcome adversity has led to her being named Microentrepreneur of the Year 2017 *in Peru*

Products and services for women's economic empowerment

The group lending method in Chile

Microfinance products

- Productive microcredits
- Microinsurance

Skills

- *School for Entrepreneurs*
- Specialized training

Support networks

- Business consolidation
- Extended learning
- Social protection
- Community development

At 12.31.2017

82% of entrepreneurs are women and

95% of these women are poor or vulnerable

They have the **support of an officer**

They regularly meet up with an officer, who helps them boost their leadership skills in the group, in their business, at home and in their community.

Groups of 20-25 entrepreneurs meet up every week, providing joint liabilities or social collateral.

Networks, through the **Somos FE** app

Encouraging the use of technology, we improve and extend women entrepreneurs' networks. This enables them to create a business profile, post sales or purchase offers, communicate with others and advertise.

Other programs for enterprising women

Palabra de Mujer [Woman's Word]

Peru

This is a group lending product to empower women who are excluded from the financial system in remote areas, making it easier for them to access loans, teaching them how to save, and offering them financial training.

Over

83,000

women served since 2015

Agromujer

Dominican Republic

A credit product for rural women who work in agriculture and sell their produce at fairs and local or regional markets.

Casafin

Panama

This credit product enables the most vulnerable entrepreneurs to make improvements to their homes, which are often their working spaces too.

59%

of the entrepreneurs taking out this product are women, who are accessing decent housing, where they can take care of their children and their business

Management training

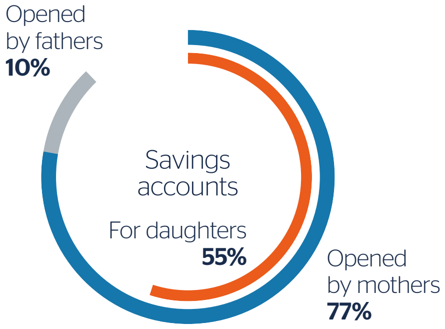
Colombia

Thanks to an agreement we have reached with the country's biggest company in textiles and clothing catalog sales, *Marketing personal*, we are offering credit lines to women vendors, as well as training in commercial management, customer service and personal finance.

Ahorro Mía

Dominican Republic

This is designed for children and young people and contains a financial education program that emphasizes the importance of saving and planning to meet their goals. The vast majority of savings accounts are opened by mothers (77%), compared to fathers (10%), and particularly for their daughters (55%).



Victims of gender violence

Dominican Republic

We run a joint program with the State Prosecutor's Office to serve women who are victims of gender violence, offering loans so that they can become economically independent and access the labor market in order to improve their lives and that of their families.

Interview with Angélica Albornoz, officer in Chile

Angélica has been with the BBVA Microfinance Foundation for many years. As a long-term employee she has seen how thousands of entrepreneurs have overcome the obstacles simply for being women. She works with 18 lending groups and perfectly understands how for many, this system is the only way to have a livelihood.

What are lending groups and what kind of support do they give women?

They are groups of around 20 people, most of them women entrepreneurs, whom we support with loans. It provides a financing solution for their businesses unavailable through formal banking. We can support them without too much paperwork because the group members work as joint and several guarantors and back one another.

Why is this methodology so important for them?

Because much of the time they don't have anyone to turn to. They are often vulnerable people, single mothers who have the initiative and capacity to start something new. They have the energy to move forward and sustain their families. That is their motivation.

What support do they get from group lending?

They don't just receive capital, they can also rely on support from other groups, people and institutions. Among themselves, they build personal relationships, networks. This encourages them to engage with other people, they feel accepted, they can have a cup of coffee and share each other's problems. It is not all about money, it is also about the psychological support that the lending group provides.

What type of training is provided?

In our *School for Entrepreneurs*, we provide modules; we hold workshops on costs, sales, earnings… It is a basic-level enterprise academy, but it is highly participatory. There are different levels of education: from students with higher education, to others who are functionally illiterate, but entirely capable of doing their calculations well.

What motivates you most on a daily basis at work?

Knowing that we are eradicating poverty. Getting up every day and seeing that I can help someone, that there is someone just waiting for an opportunity and that behind that woman there is an entire family. That is what makes this so satisfying!

SDG 8
Economic growth

Goal

Promote inclusive and sustainable economic growth, employment and decent work for all

Target 8.3
Promote development-oriented policies that support productive activities, and encourage the formalization and growth of micro-enterprises, through access to financial services

Target 8.10
Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all

8 DECENT WORK AND ECONOMIC GROWTH

Ensuring that everyone has a decent life is a priority in the 2030 Agenda, and for the Foundation, giving it purpose in its everyday work. Promoting sustainable and inclusive socio-economic development for vulnerable people is the Foundation's aim. For this reason, SDG 8 is the goal which best reflects our mission.

We place entrepreneurs at the center of our activity and accompany them along their journey, providing financial products and services, advice and skills training to help sustain their progress over time.

They grow with the use of productive loans, microinsurance and savings

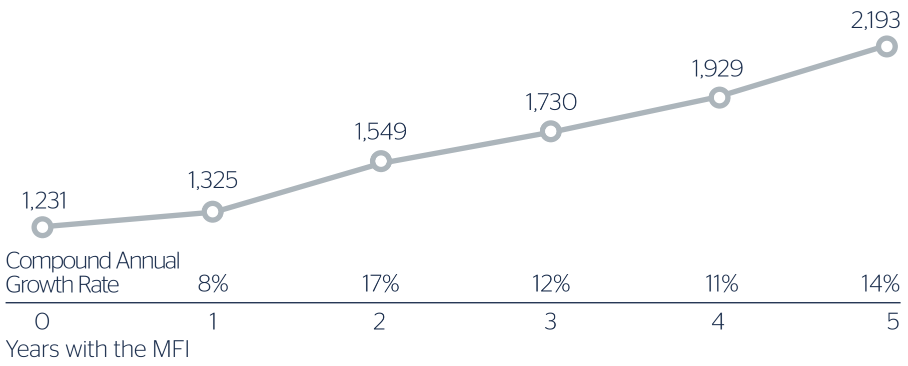
We apply our methodology, Productive Finance, to their home-based businesses so that they can prosper from the net incomes generated, which grow by an annual average of 17%. They can cover all their expenses and give their families a better life, as well as drive development in their communities. In fact, for every ten entrepreneurs we serve, more than two jobs are generated.

They grow not only through productive loans, but also with the aid of microinsurance and savings, which enable them to accumulate assets, invest in education and health, while protecting the household in the event of emergencies. For example, when faced with a crisis, having a savings account makes it easier to receive remittances and public subsidies. This is possible thanks to the development of technological platforms that drive transactional costs down and bring financial services within the reach of more people.

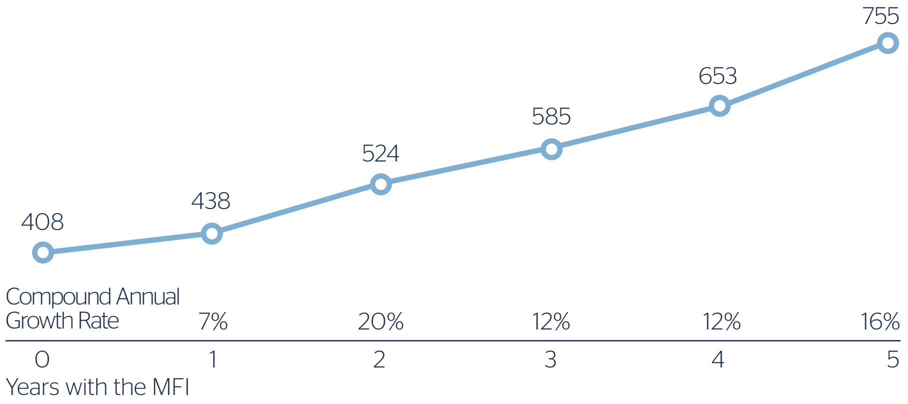
This is the case of Juan Disla, who at 65 years old is still managing his business, with the peace of mind that comes from knowing that unforeseen circumstances will not lead him to lose everything. Macarena Neira, a sales assistant in Chile, has been working with the Foundation from the beginning and explains how over the years she has formed a bond with the entrepreneurs and has seen their businesses grow. That, she insists, makes all the difference.

The advice and training offered with these products mean that those who were excluded from the financial system become familiarized with it and make better decisions. Universal access is one of the World Bank's priority goals, through the Universal Financial Access 2020 initiative, to which the Foundation is committed.

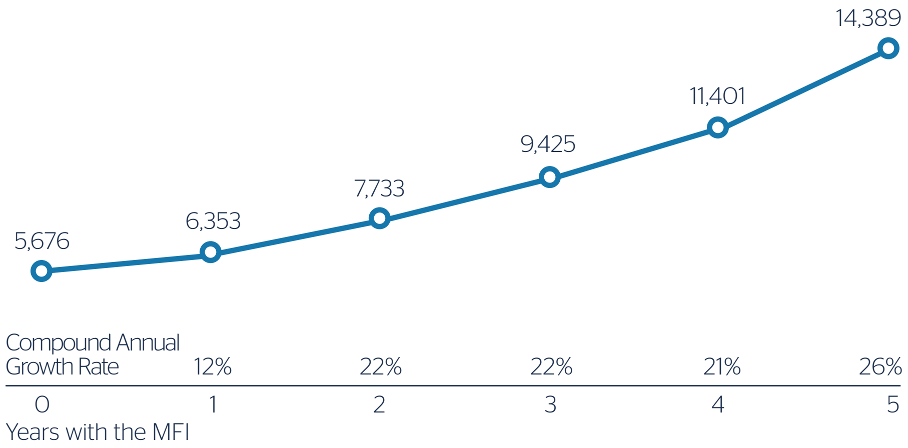
Change in sales *



Change in net incomes *



Change in assets *



Change in monthly sales, net income and assets in USD, by nº of years with the MFI

Clients current at some point in the year whose data have been updated during the previous 12 months. Average growth rates for 2012-2017 cohorts. The value at the outset is the average of the initial values of the 2012-2017 cohorts; subsequent years are extrapolated from the average value at the outset using the average growth rates.

For every 10 entrepreneurs served since 2015, **2.3 additional jobs** have been created

Employment created between 2015 and 2017 by clients served between 2015 and 2017 (current at 01.01.2015, plus all those served, both new and recurrent, subsequently)

Their assets grow every year by

24%

Clients current at some point in the year whose information was updated in the previous 12 months. Average growth rates for 2012-2017 cohorts.

Juan Disla's story

Nobody is surprised to see Juan sitting in the courtyard of his house, converted into a small broom workshop. He has spent 20 years at his trade, which he learned by watching, and he hopes it will become a family legacy.

Cuchan, as he is affectionately called by the neighbors, has turned his business into a livelihood with which he has brought up his seven children, and he hopes they can do the same. Recognition for his dedication has come in the shape of the *Award for Microentrepreneur of the Year* he has just won, which acknowledges that his is one of the best family enterprises in the Dominican Republic.

With support from the Foundation, his workshop is a reference in the local market for the quality of the raw materials he uses and the finished product, all hand-crafted. In Villa Vasquez, the town where he lives, it is difficult to find a house where Juan's brooms have not swept clean. He finds that direct selling is the best way of reaching his customers, so it is common to see distributors and locals buying in the courtyard of his house, or Juan himself riding his motorcycle loaded with brooms on his way to nearby municipalities.

In his country, which according to the ECLAC has one of the lowest rates of social welfare coverage in the region, retirement is not always an option. Especially for people like Juan. At 65 he knows that both he and his family depend on the business, but that they are protected by a micro-insurance and the savings that he has been depositing into an account. Money with which he hopes to buy a plot of land to build a bigger house and expand his workshop, growing by the day, and on which his future depends, as well as that of his two children, Juan and Daniel. Both are ready to continue the traditional craft of broom-making, convinced that with their father's effort and example they will continue to prosper. In any case, there will always be something to sweep up...

> *Juan learned his trade by watching, and he has turned it into a family legacy*

Products and services for inclusive and sustainable economic growth

The Foundation provides financial products and services, such as credit, savings and insurance, as well as advice, adapted to the needs of entrepreneurs, destined to help their businesses grow, with the commitment of accompanying them for the long term.

Number of entrepreneurs by product type

Current clients at 12.31.2017

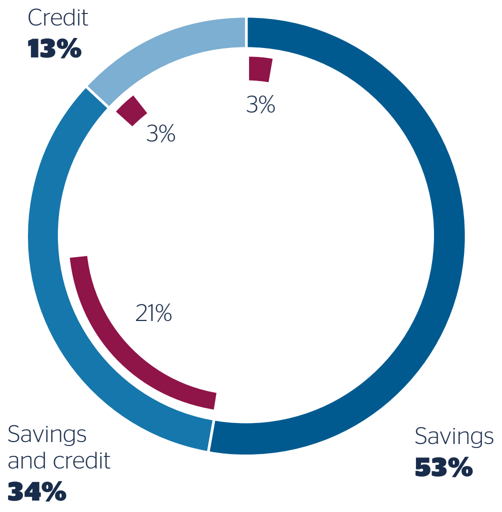
1,941,232 total clients

● Savings
1,029,920

● Savings and credit
660,484

● Credit
250,828

● Entrepreneurs with a voluntary insurance policy



Savings products

These products guarantee entrepreneurs that they will have resources for their future plans and be able to cope in case of an emergency.

Planned Savings
Soñando Juntos
Colombia
The entrepreneur defines their own savings plan for a specific end, including the frequency and amount of payments.

Savings for Children
Mía
Dominican Republic
An account for children that includes educational sessions on the importance of saving. Over 35,000 children have one of these accounts at the end of 2017.

Savings
San
Dominican Republic
Formalizes informal savings associations (ROSCAs).

Microinsurance

We provide microinsurance policies that help reduce entrepreneurs' vulnerability and we plan strategies designed to find solutions that enable them to return to their businesses in the event of unforeseen circumstances. We get directly involved in creating these policies, tailored to specific enterprises and the amount they can afford.

52%

of entrepreneurs with a loan have a voluntary insurance policy

Life insurance

Colombia

Includes an advance payout if a serious illness is detected.

Chile

Voluntary microinsurance. Includes medical and legal advice by telephone.

+370,000

entrepreneurs with the Foundation have a life insurance policy

Damages insurance

Peru

Seguro Multirriesgo [Comprehensive insurance]: 92,688 entrepreneurs have taken out this product. 327 clients were compensated for the coastal *El Niño* phenomenon.

Colombia

Multiple coverage for unforeseen circumstances and natural disasters. 49,820 entrepreneurs have taken out this insurance.

Temporary incapacity insurance

Peru

Coverage of loan installment payments due to temporary incapacity.

Credit

These products allow clients to buy fixed assets for their businesses (machinery, premises, etc.) and fund their working capital (provisions, merchandise, etc.) adapted to their activity's cycle. We design products for specific purposes, such as agribusiness or access to education, or for home improvements, given that a very significant proportion of the people we serve conduct their business from their own homes.

Housing loans

We work in conjunction with the NGO *Hábitat para la Humanidad* in Panama, Peru and the Dominican Republic

Casafin

Panama

Household improvements, including construction mentoring.

Construyendo Confianza

Peru

Reconstruction of homes destroyed by *El Niño* phenomenon.

Loans for Homes

Dominican Republic

Purchase, extension and building of home-based businesses.

Home improvements

Colombia

One-off home improvements.

Interview with Macarena Neira, sales assistant in Chile

Macarena has worked with the Foundation from the beginning, seeing for herself how microfinance changes lives. In Chile, her work currently consists of formalizing loans: she reads the terms and conditions out loud to the entrepreneurs and answers any questions they might have before they sign.

What is the added value of mentoring the entrepreneur?
In the years I have been here, I have created a bond with clients. In fact, they are more than that to me, they are people with a business that we have followed close by, and the idea is to grow as they grow, based on their activity and their abilities. In our model, there is an assessment, field work, the part in which the officer visits the home-based business and sees whether their client's standard of living has changed, whether they have become over-indebted... The added value is knowing exactly what they need, and seeing how far they have gone, if they have put their children through school, or have created jobs with our support, and thanks to their hard work.

Is there really an impact on the whole community?
Of course! When an entrepreneur tells us that they are providing jobs for two or three people, and that over time that turns to four or five, it means that they are doing well, that they are able to grow and help the country grow. They are changing more lives, as well as their own.

Why are microinsurance policies so important for the entrepreneurs we serve?
Sometimes it is hard to make people understand that they need to spend extra money on an insurance policy because of the vulnerability of their businesses. With microinsurance, they have a buffer if something happens to them and that is one less thing for them to worry about.

What motivates you most on a daily basis?
Seeing how much progress women in Chile have made. History has changed. We work with lots of housewives who set up small businesses... Women working in their homes who have a job that enables them to sustain their families. That is what makes the difference.

SDG 10
Equal opportunities

Goal

Reduce inequality

Target 10.2
By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Inequality in accessing capital, education, food and healthcare continues to be a challenge for the entire world and must be tackled with global solutions, according to the United Nations. One of these solutions, included in SDG 10, is to guarantee opportunities where equality is lacking. The 2030 Agenda's target is for the incomes of the 40% poorest to grow at above the average rate for their country.

Latin America is one of the most unequal regions in the world. This undermines its capacity for economic growth, particularly in rural areas where, as the FAO points out, one in every two people is poor.

Ensuring equality of opportunities is a priority for the Foundation; we do this by bringing the financial system closer to vulnerable people who find it hard to access formal banking. We use innovation to provide them with financial products and services that are tailored to their needs.

Using the physical or digital distribution channels that best suit them, entrepreneurs can carry out all their transactions, familiarizing themselves with new tools which help to close the digital gap over time.

We have strengthened our presence in the remotest areas through our own network of 339 banking agents. They are trusted clients who make their place of business available for the use of the community and facilitate transactions and payments for our entrepreneurs, who can operate from a small local trading outlet as though they were in a branch office. We train them and provide the technology they need to make processes easier and offer more services. Mobile banking, "express" offices, agreements signed with other institutions, plus our own branches, constitute, together with the agents, an ecosystem that brings Productive Finance to vulnerable populations. Daniel Aguiar, an officer with the Foundation in the Dominican Republic, explains how these agents make life easier for entrepreneurs.

We take special interest in serving those facing the highest barriers such as women, people with lower educational levels, those living in rural environments, young people who are at an age when they can break the cycle of poverty, and older people, who in many countries have insufficient social care or none at all. Adelaida Morán is an example of how a woman, isolated from everything in her small Panamanian community, can change her life and have an impact on the lives of those around her.

> *We make innovations in the physical and digital channels so that no one is left behind*

Entrepreneurs

58%
Women

41%
Young people

38%
Primary education at best

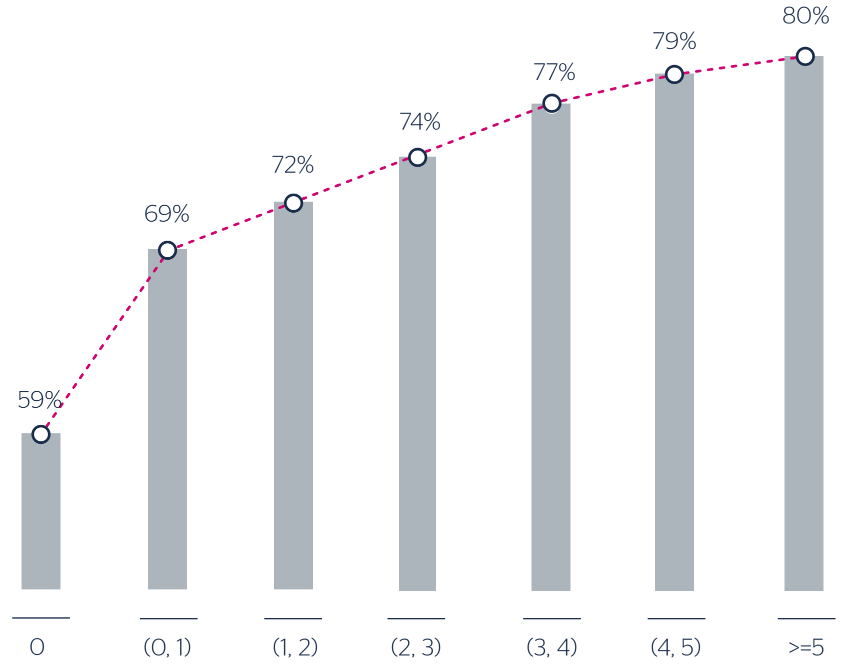
31%
Rural

7%
Older people

Entrepreneurs who joined us in 2015, 2016 and 2017

New clients served between 2015 and 2017, by profile

Entrepreneurs above the poverty line



Years that entrepreneurs have banked with the MFI

The client segment above the poverty line has increased since 2015, from

59% to 80%

Clients served between 2015 and 2017 (current at 01.01.2015 plus all those served, new and recurrent, subsequently) who reported their vulnerability data on signing up and with at least one renewal between 2015 and 2017. Percentage of clients over the poverty line by the time between the first loan and the latest update.

Adelaida Morán's story

The only barrier which Adelaida cannot fight is the rain, which turns her small village, Capira, into a quagmire, so that the only way of getting in or out is on horseback. Her home-based business is 30 kilometers away by dirt track from the nearest district, La Chorrera, in Panama.

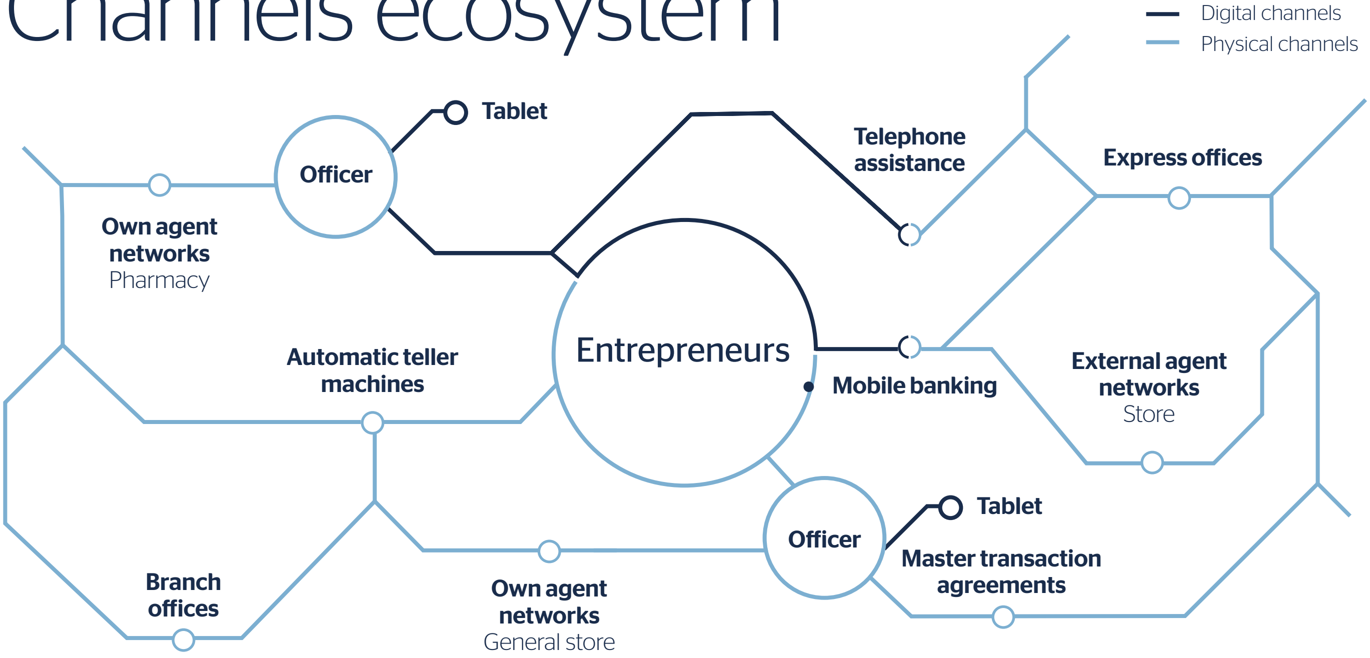
Her 200 neighbors know her because she runs a little sundries store. She also raises chickens and grows coffee, which creates jobs in her community. Sometimes she hires up to seven locals because she says she understands that where there is no equality, what people need are opportunities.

She has never heard of SDG 10, nor any of the others, but it is clear that every day she contributes to reducing inequality without realizing it. Adelaida has become the head of her family. All this came about, she explains, because years ago she heard on the radio that the Foundation's MFI in her country was giving opportunities to entrepreneurial people. That same day, she got on the bus, and she still hasn't stopped. She says that she has done so well that she dares to be ambitious. Now she wants to buy a car so that she can sell her products outside the village, but also for another equally important reason, or more so: if there is an emergency she can help her children and neighbors, without having to wait three hours for the bus to come and take them to the nearest hospital; or worse, having to wait until the next day, if something happens at night.

She already knows what she can achieve with small loans, and she knows she can rely on advice from the Foundation's officers to achieve her goal and continue making progress. "Thanks to them, I know how much they can give me and how much I can repay, and thanks to them too, I am up to date with my installments", she says. She is talking while sitting in a house that no longer fears the rain. "My house was made of *penca* stalks [similar to those of a palm tree] and had a dirt floor. But with the *Casafin* loan we put on a zinc ceiling and laid a cement floor", she continues, referring to the home improvements she has done using one of the Foundation's products in Panama. "We even installed solar panels to get electricity, which we didn't have before".

Adelaida says that neither she nor her husband Evaristo, who helps her in all her business ventures, nor their five children have any doubts about her ability to invest in projects that go beyond the dirt roads that separate her from the city and from her will to continue growing.

Channels ecosystem



We have found the way to bring Productive Finance closer to everyone, to promote equal opportunities through alternative and complementary distribution channels. We transformed traditional branch offices and increased the number of ways we interact with entrepreneurs to reach those who are located the farthest, making physical and digital tools available to them that complement each other within the ecosystem.

Loan officers
The Foundation's loan officers visit entrepreneurs at their workplaces, breaking the banking tradition. In the shape of a mobile device, they take the branch office with them to the clients' home-based businesses, avoiding the need for clients to make costly trips. They analyze the feasibility of clients' activities and their surroundings.

Branch offices
Branch offices are strategically positioned to create an area of influence from which to serve our entrepreneurs. They also serve as support to other distribution channels.

Express offices
Express offices are smaller offices that use alternative channels and serve entrepreneurs in remote areas. In Peru, although their official name is Basic Transaction Establishments, they are known as *Tambos*, from the term *tampu* used in the Incan period, meaning "the shed". In Panama, they are known as OPI, the Spanish acronym for Promotion & Information Office.

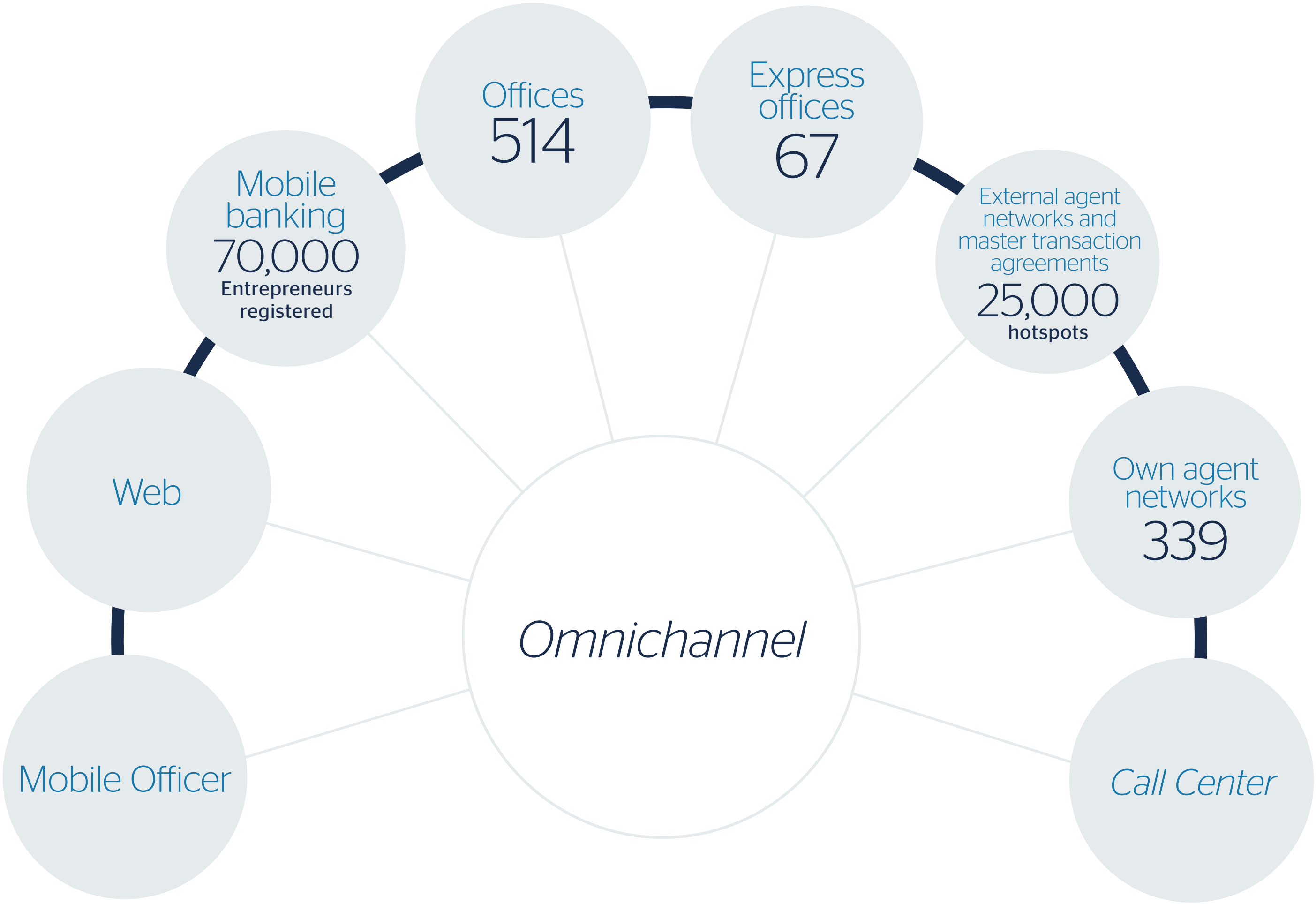
Own agent networks
This channel refers to clients who provide services using the institution's technology from a commercial establishment, such as a pharmacy or a general store. This is a way to achieve the institution's expansion, especially in Colombia. In the Dominican Republic, they are called banking subagents, and are also a key factor in increasing entrepreneurs' savings, which shows how much they trust both subagents and traditional branch offices.

External agent networks and master transaction agreements
External agent networks and master transaction agreements are set up with independent agents. These agreements allow them to also work with other financial institutions or in supermarket chains. The distribution system in Chile relies on over 4,000 hotspots, in order to service clients living close by, give them more options, plus easy, fast and secure customer care.

Mobile Banking
Over 70,000 users carry out transactions and check information on their mobile phones. There were more than 481,000 transactions in 2017 in Colombia and in the Dominican Republic. Despite the digital gap, which impacts vulnerable segments the hardest, it is an effective channel because it brings financial services within reach of our entrepreneurs, lowers their costs and enables them to manage their finances more easily.

Telephone assistance
The Foundation's institutions also provide customer support over the telephone, complementing the other channels.

The Foundation's channels, traditional and alternative


Offices
514
Express offices
67
Mobile banking
70,000
Entrepreneurs registered
External agent networks and master transaction agreements
25,000
hotspots
Web
Own agent networks
339
Omnichannel
Mobile Officer
Call Center

Banking subagents ("SAB") in the Dominican Republic

SABs play a dual role: they are entrepreneurs who are clients of the Foundation's Dominican MFI and at the same time assume the function of agents. At this point they become the institution's representative in their neighborhood because, through them, clients can carry out most of the transactions they could make through a traditional branch.

Since 2015, more than 67,000 entrepreneurs were served by SABs, and the greater a client's seniority with the Foundation's institution, the more they operate through this channel. SABs have handled more than 500,000 installment payments, deposits or cash withdrawals.

For the Foundation, they are strategic allies, who enable us to get closer to our entrepreneurs.

Over
67,000
entrepreneurs served

More than
500,000
installment payments, deposits or cash withdrawals

Interview with Daniel Aguiar, officer in the Dominican Republic

Daniel has been an officer with the Foundation in the Dominican Republic for years. Despite the difficulties of his job, which often takes him along beaten dirt tracks almost too narrow for his motorcycle, he acknowledges that helping people is his motivation for getting up every day. Because of the area where the entrepreneurs whom he serves live, he knows very well that the subagents play a crucial role in enabling them to conduct transactions, payment installments and, in short, facilitating their lives.

How do you get to the entrepreneurs?
By motorcycle. The area where I work now is quite cut off. There are places you can't access by car, only a motorcycle can make it through. That applies in the case of La Victoria municipality, where we have a subagent who helps us. When entrepreneurs need to make a payment, or any other transaction, we ask them to go to him directly, and that makes their lives a bit easier.

What exactly are subagents and how do they help?
They are people with their own businesses who are well-established in the locality. We always try to find people who are well-known in the community, with whom the entrepreneur can feel comfortable about depositing money. This is one of our requirements. They can carry out all their transactions there, except for the loan disbursements, but they can make their regular installment payments. Using subagents, we reach virtually the entire country.

How is technology a part of the officer's day to day?
We use the telephone for the assessments in the entrepreneur's home. That makes the task much easier because we collect repayments, calculate the installment payments, we access all the information about them and their payment status. We can even print it out, there and then!

What motivates you most on a daily basis at work?
Seeing people grow. Being able to help a client when they ask me for a loan and over time, seeing with my own eyes what progress they have made with that money; I find that very satisfying. Knowing for a fact that we help people escape poverty and improve their lives is one of the reasons I enjoy my job and makes me want to go to work every day.

SDG 16

Peace, justice and strong institutions

Goal

Promote just, peaceful and inclusive societies

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

"Peace must be our goal and our guide", said António Guterres in his first speech as Secretary General of the United Nations at the beginning of 2017. As set out in the 2030 Agenda, we need to work towards just and inclusive societies and ensure people's physical safety so that they can make progress towards sustainable development. He also stresses the importance of resolving and avoiding conflicts, and of supporting countries coming out of them. All with a gender perspective that allows women to play their part in consolidating peace.

For over 50 years, millions of people have suffered from the conflict between the FARC guerrillas and the Colombian government, particularly those living in the countryside. The peace agreement was signed in 2016, putting an end to years of combat, with 8.4 million victims, according to official data *(Registro Nacional)*. Of these, 7.1 million have been displaced, half of them are women, concentrated in rural areas, where there are 14 million people, most of them poor. These areas, where poverty abounds and inequality rules, have given Colombia one of the highest rates of inequality in the world.

The Foundation works actively for vulnerable populations, those which in Colombia now have to start rebuilding their lives, especially in the rural territories which have been historically marginalized because of the war. Recently, we have set up the program *Emprendimientos productivos para la paz* [Productive Enterprises for Peace] to support small businesses owned by conflict victims using Productive Finance, as well as providing them with training. We are present in 188 out of the 306 municipalities prioritized by the Colombian government for implementing the peace agreement.

We pay special attention to women, who did not fight in the war but have suffered from it and are now leading figures in the reconciliation. People such as Luz Dary Paz, who in this new phase has been able to move on and send her daughter to university.

We reach the rural parts of Colombia to help repair its social fabric and we also work with the ARN (Agency for Reincorporation and Normalization), in our support for all those affected by the conflict, so that demobilized groups in the process of reintegrating into society can access, along with their families, financial services and education. We reinforce dialogue as a means to reconstruct the country and are taking part in the Second Macro-round for Reconciliation, that gives voice to the processes that the regions are undergoing and to the experiences of the affected communities; many of them, displaced by the conflict, had to flee the country.

We are present in 188 out of the 306 municipalities prioritized by the Colombian government for implementing the peace agreement

In Panama we look after these refugees through a partnership with UNHCR (UN High Commission for Refugees) and the Red Cross. Luis Salazar, one of the Foundation's supervisors, tells how people use the institution in Panama in search of an opportunity to restart their lives, far from their homes.

The Foundation’s peace-building work, exemplary according to the United Nations

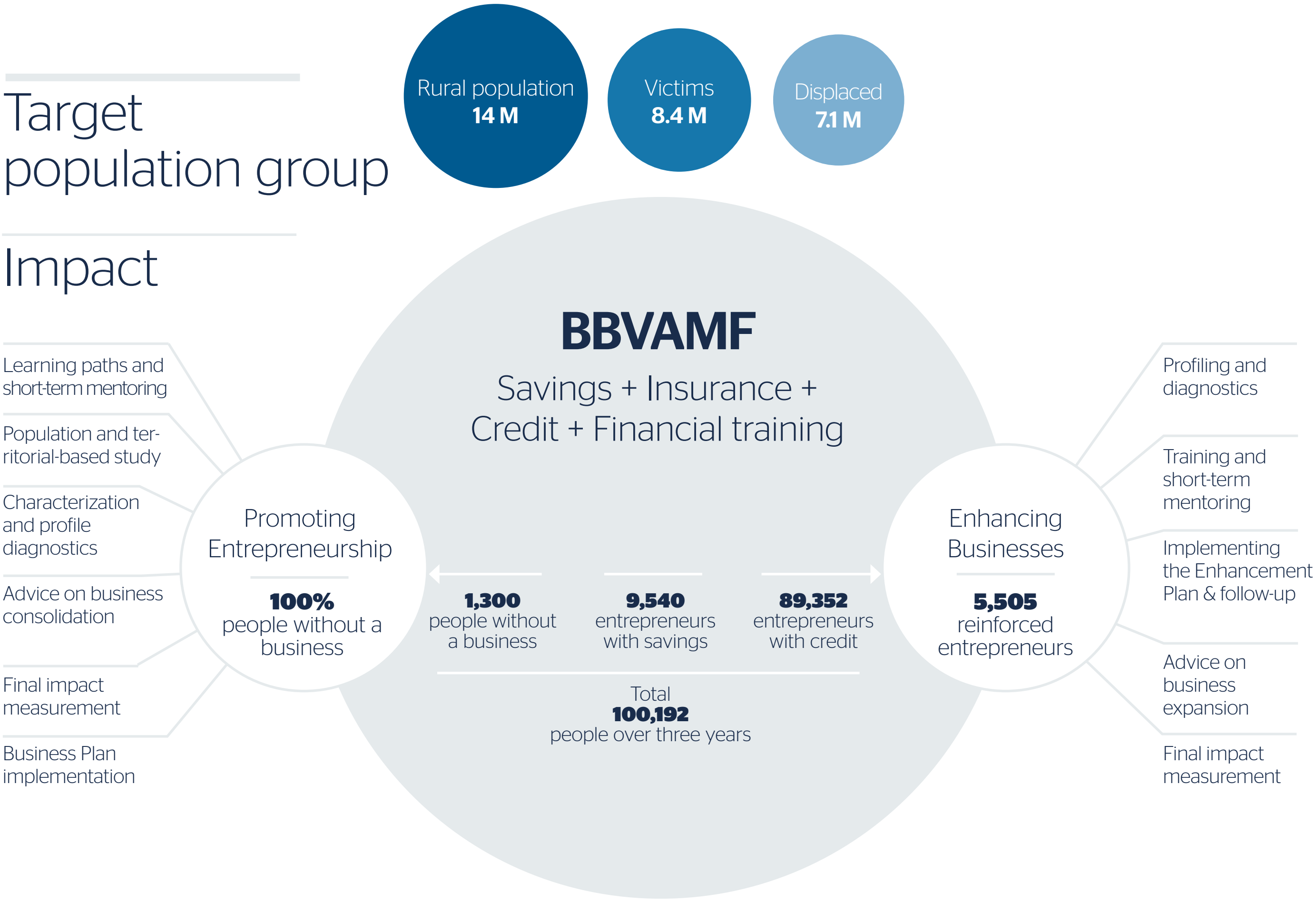
In April 2015, the United Nations’ Sustainable Development Goals Fund (SDG-F) appointed BBVAMF, together with 12 other global institutions, as a founding member of the Private Sector Advisory Group, to give the UN strategic support and together, achieve better results in sustainable development.

In conjunction with the University of Pennsylvania, the UN published a report in 2017 focusing exclusively on how the private sector can contribute to peace. “Business and SDG 16: Contributing to peaceful, just and inclusive societies” analyzes how this goal is important for the private sector and provides perspectives on the link between peace and the development agenda.

It is a set of good practice guidelines, that show how an effective legal framework generates trust and specify how companies can contribute to peace by improving their governance, their transparency and their social responsibility.

Beyond the rhetoric, the report contains successful case studies from around the world, such as the Foundation’s work in Colombia, as well as our contribution to promoting good corporate governance and appropriate regulation.

Productive Enterprises for Peace program



Target population group

Rural population **14 M**

Victims **8.4 M**

Displaced **7.1 M**

Impact

BBVAMF

Savings + Insurance + Credit + Financial training

Promoting Entrepreneurship

100% people without a business

- Learning paths and short-term mentoring
- Population and territorial-based study
- Characterization and profile diagnostics
- Advice on business consolidation
- Final impact measurement
- Business Plan implementation

1,300 people without a business

9,540 entrepreneurs with savings

89,352 entrepreneurs with credit

Total **100,192** people over three years

Enhancing Businesses

5,505 reinforced entrepreneurs

- Profiling and diagnostics
- Training and short-term mentoring
- Implementing the Enhancement Plan & follow-up
- Advice on business expansion
- Final impact measurement

Productive Enterprises for Peace is an initiative that will drive the development of those who have been left behind, victims of the armed conflict. With the Foundation's methodology, Productive Finance, we are extending our scope to reach over 100,000 people in priority municipalities, offering them education and financial services, with the support of international development agencies, and backed up by several governmental bodies.

We want to improve the conditions for rural development, together with *Corporación Mundial de la Mujer Medellín* and the *Corporación Mundial de la Mujer Colombia* (minority shareholders in the Foundation's Colombian institution). Both institutions contribute their skills and experience at grassroots level in mentoring the entrepreneurs, especially women, in implementing a business plan, developing products, accessing markets and expanding projects, as well as providing psychological and social care. The aim is to provide comprehensive financial inclusion, based on mentoring and knowledge of the territory, professional commitment and the needs of the population.

We want *Productive Enterprises for Peace* to become an effective instrument in combating poverty and vulnerability, and for it to contribute to the sustainable development of rural areas in fields as important as women's economic empowerment and food security. All this intends to help peasant families reintegrate as productive members of society, and to contribute to the new generation and the resettling of people in these priority zones.

Luz Dary Paz's story

Luz Dary is 46 years old, so the armed conflict in Colombia has been going on nearly all her life. She has been living for quite a while in Cauca, previously a guerrilla zone, currently classified as a priority zone by the Government in the transition to peace. She has seen armed groups pass through its streets, the same groups that have fed the common crime that makes her neighborhood an even more unsafe place.

In spite of all this, for the past eight years she has had support from the Foundation in making her small business flourish, so that she can live with her family and not be forced to flee. Thanks to her business, her eldest daughter, once threatened by the FARC, is now close to finishing her nursing degree in Cali. A vocation to serve others that she has surely inherited from her mother, who helps the community in any way she can.

Luz isn't able to restore peace on her own, but she can contribute to it, generating progress and development. Because, according to the 2030 Agenda, there can be no sustainable development without peace and no peace without sustainable development. It scarcely seems a coincidence that this tireless entrepreneur's surname is Paz – "Peace". There are millions of stories like that of Luz, stories of women whose hard work and efforts are repairing a social fabric destroyed by weapons and who are now hoping that the future will look brighter.

There can be no sustainable development without peace

Initiatives for peace

As part of the Foundation's commitment towards the peace process in Colombia, we are working on a number of initiatives to promote development in rural areas, which have been hit the hardest by the conflict:

Laboratorio Modelo Rural [Rural Model Laboratory]

This consists of adapting our products, services and channels to prevailing needs so that entrepreneurs in the Agricultural sector make progress. The objective in 2018 is to measure the impact of this comprehensive intervention in rural areas to see how effective it is in eradicating poverty in Colombia.

Rural Finance Initiatives (RFI)

The Foundation's MFI in Colombia has signed a Memorandum of Understanding with USAID to join forces in supporting more people in priority municipalities and increase our value offer, consolidating our positioning and leadership in mentoring low-income entrepreneurs who are victims of conflict.

Agreement with ARN

The Foundation's Colombian MFI has also signed an agreement with the Agency for Reincorporation and Normalization (ARN) to serve the demobilized population and their families in their reintegration process. The aim is to help them access financial services, financial education and mentoring in their businesses, which will enable them to improve their lives within the law.

As part of this agreement, we have trained around 200 professionals from ARN, known as the *reintegradores*, [reintegrators] using the Financial Education program *Echemos Números* [Let's do the figures], among others.

We are fully aware of the important role dialogue plays in peace. That is why, in 2017 we took part in the Second Macro-round for Reconciliation, a civil society initiative that promotes the sharing of processes and experiences that are already being developed in those regions hit the hardest by the armed conflict. We describe our work supporting vulnerable entrepreneurs, small-scale enterprising people who are moving away from poverty, victims of the conflict who see entrepreneurship as a new path to follow.

Cooperation with UNHCR and the Red Cross in Panama

Many have fled Colombia to other countries such as Panama. The Foundation has been cooperating in this country with UNHCR and the Red Cross to provide financial and social inclusion to those who have been displaced. Since it was signed for the first time over five years ago, this agreement has provided opportunities to refugees, enabling them to access financial services and training that give them hope for the future.

Integrating refugees in Panama is a priority for the Foundation, because their extremely vulnerable situation makes access to financial services a huge challenge for them.

Interview with Luis Salazar, supervisor in Panama

Luis Salazar knows a great deal about the circumstances that lead someone to leave their own country. Many of the entrepreneurs he serves are refugees, who have fled the war in search of a future. He coordinates with UNHCR to provide support to these entrepreneurs, giving them a second opportunity in Panama.

What do the refugees need when they first arrive at the institution?
Many of them come from humble backgrounds, so the first thing they need is economic support and advice on how to set up a business activity, which will be their family's sole means of livelihood.

What does this support consist of?
We mentor them and we help them to enhance their businesses with loans for working capital and to buy assets, because many of them worked in trade in their home countries and see entrepreneurship as the only way of surviving.

With time, how does the help they receive change?
Entrepreneurs are guided so that their businesses prosper. Every year, they attend a training session on the importance of saving a part of their income and diversifying their activities, as well as on keeping financial records so that they have better control over their ventures.

What countries do these people come from?
Mainly from Colombia, but also from Venezuela, Cuba, Honduras, Nicaragua, Haiti, Sierra Leone, Congo, Burkina Faso...

SDG 17
Partnerships for the goals

Goal

Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Target 17.16

Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technologies and financial resources

Solidarity is a transformative force that can eradicate poverty and put an end to financial exclusion; a challenge so great that it must be tackled by both the public and private sectors. It is only by working together that we can change the world and the success of the 2030 Agenda depends on it. That is why SDG 17 refers to a Global Partnership for Sustainable Development.

The BBVA Microfinance Foundation works with major local and global players in the field of poverty and development, such as the United Nations, World Bank, Inter-American Development Bank, and Spanish Cooperation. We also establish other partnerships that generate value for our entrepreneurs. We are building these connections on the basis of shared principles, values and goals. Our partners, who are also shareholders in our institutions, participate through their knowledge and experience in each of the territories where we operate.

Together, we bring an innovative vision to microfinance and help the sector with the activity of our group of microfinance institutions. Using the wealth of our own experience, we are driving good corporate governance, appropriate regulation, women's economic and social empowerment, training and social measurement in the sector.

We have conveyed our results and achievements at the United Nations HQ in New York and the head office of the OECD, in Paris. During the celebration of the Foundation's 10th Anniversary, held in Madrid and with the Honorary Presidency of Her Majesty the Queen of Spain, our entrepreneurs recounted the reasons behind the job that we have been carrying out for ten years and that we know is changing lives. We want the innovation in our processes, programs and products to set an example for the sector, and the acknowledgement of our work is a proof of that.

The SDGs are a call to action to end poverty. Millions of people are committed to the Agenda and have taken ownership of this roadmap for all. It is our responsibility to guarantee the success of sustainable development, a challenge that can only be achieved when we all work together.

Institutional shareholders in our MFIs

ONG SEPAR
Peru
A civil non-profit association promoting sustainable development in Peru, and particularly in the central region, with development programs and projects.

***Corporación Mundial de la Mujer Medellín.* Colombia**
A non-profit institution focused on the development and reinforcement of microentrepreneurs. It provides tools and services to set up, consolidate and sustainably expand microenterprises, as well as protecting the families economically dependent on them.

***Corporación Mundial de la Mujer* Colombia**
A non-profit institution that improves the living standards of vulnerable people, especially women, with programs and projects driving their human and productive development.

Hogar de Cristo
Chile
A charitable institution that helps the poorest and the excluded in society, opening up their opportunities for a better life.

ONG Adopem
Dominican Republic
A non-profit organization that enhances and builds on the entrepreneurial skills, the social and human development of its clients and their families, by providing training and advice, generating a positive impact on their business growth and living standards.

International Finance Corporation (World Bank Group)
184 member countries make up the IFC, the largest international development institution working with the private sector in developing countries. As a member of the World Bank Group, its goal is to eliminate poverty and boost prosperity.

Strategic partnerships

2007

Inter-American Development Bank
The Foundation signed a Memorandum of Understanding (MoU) in 2007 with the IDB to work together on activities to improve access to microfinance services in Latin America.

2008

World Bank - IFC
The IFC and BBVAMF have signed an MoU on strategic collaboration. At the end of 2016, the Foundation reinforced its commitment with the World Bank when it joined the *Universal Financial Access 2020* initiative.

2014

Spanish Cooperation
The partnership with the Office of the Secretary of State for International Cooperation and for Ibero- America was signed in 2014, to join forces in financial inclusion and microfinance. In 2015, a partnership agreement was signed with *Marca España*.

United Nations Organization
The Foundation has worked throughout these 10 years with the United Nations, namely: with the SDG Fund at a global level, with UNEP in Colombia, and with UNHCR and WHO in Panama, among others.

2015

UN Women
The partnership with UN Women was put in place in 2015 to promote the development and inclusion of low-income women entrepreneurs in Latin America.

2016

ECOSOC
In 2016, the United Nations awarded the Foundation a special consultative status on its Economic and Social Council (ECOSOC).

2017

Development Bank of Latin America (CAF)
Ever since it was set up, the Foundation has worked with the CAF. In 2017 an MoU formalized the existing solid relationship.

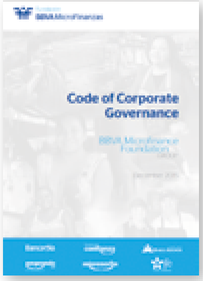
Sector development

We also work to transform the microfinance sector and eliminate the obstacles restricting its expansion

Good corporate governance

Improving corporate governance, one of the greatest challenges facing the sector in Latin America, is key to attain social goals.

A clear organizational structure, well-defined and transparent responsibilities and efficient procedures for identifying, monitoring and communicating risk is essential for integrated and efficient management. It is also fundamental to generate transparency and trust among all stakeholders, from clients to investors.



Code of Corporate Governance

BBVA Microfinance Foundation

BBVAMF Group's Corporate Governance Code

This encapsulates the values and principles of governance and its commitment to generate social impact and long-term sustainability, which is the necessary first step towards improving performance. The Code has received accolades and is a benchmark in the sector.

Good Governance training workshops*

The Foundation has given Good Governance training to 400 board directors and company directors from over 230 microfinance institutions in Colombia, Peru, Dominican Republic and Costa Rica.

Publicly available reference papers

Universal Corporate Governance Code
The **Universal Corporate Governance Code for Microfinance Institutions** contains the principles and regulations that all good governance manuals for the sector should include, in line with international standards and best practices.

Good Governance Guidelines
To achieve their practical implementation and application, the Foundation worked with the IDB to draft the **Guidelines for the adoption of good governance principles in microfinance institutions**.

Passport
The Passport is a self-assessment questionnaire for identifying areas for improvement in the governance of microfinance institutions.

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*These workshops were organized with support from: the Training Center of *SBS*, the Peruvian banking, insurance & Fund management supervisory body; *Asomif*, Peru's Microfinance Association; *Fepcmac*, the Peruvian Municipal Savings & Loan Federation; *Redcamif*, the Central American and Caribbean Microfinance Network; *Redcom*, the Costa Rican Network of Micro-enterprise Organizations; *Abancord*, the Dominican Republic's Association of Savings Banks and Credit Corporations; *Banca de las Oportunidades* and *Bancoldex*.

Women's empowerment

We are a reference for, and take an active part in, the principal women's economic empowerment forums, such as the Commission on the Status of Women (CSW), held every year at the HQ of the United Nations, the *Gender Days* during the World Bank's *Law, Justice and Development Week*, the annual meeting of the *Global Banking Alliance for Women*, the *Gender Group* in the OECD's network of foundations *Netfwd* and the OECD's *Policy Dialogue on Women's Economic Empowerment* events.

Human capital

In partnership with the IDB, BBVAMF has developed a program to train microfinance specialists, in conjunction with Spain's National Distance Learning University *(UNED)*, Latin American universities and higher education institutions (*Universidad del Pacífico, Universidad Javeriana, Universidad Latina, Instituto de Estudios Bancarios* and *Ampyme*). The program has trained 1,669 microfinance specialists over 48 courses run in five countries.

Promoting appropriate regulatory frameworks

PROGRESO

Digital Legal Newsletter of the BBVA Microfinance Foundation Group

Agricultural sector and rural development

Transposition of European data protection regulations

Female Farmers Programme

MICROFINANCE TRENDS

Financial inclusion, which promotes the development of vulnerable population groups, needs an appropriate regulatory framework.

BBVAMF publishes *Progreso Microfinance: Corporate Governance, Inclusion and Development*, a quarterly digital newsletter with legislative news about the microfinance sector. It reports on the most important legislative and regulatory developments in the sector in each country and new developments in corporate governance worldwide. It targets governments, regulators, supervisors, legislators, multilaterals, academics and the media, among others, in support of a more informed regulatory debate.

The drive to measure social impact

The social impact measurement system designed by the Foundation has been public since 2012 and has become a benchmark in the sector. This is acknowledged in the Harvard Kennedy School report for the UN, *Business and the United Nations: Working together towards the SDGs*. In addition, BBVAMF has presented this social measurement system at the most important international microfinance forums.

MIDIENDO
LO QUE
IMPORTA
Measuring
what really
matters
Measuring
what really
matters

Institutional Activity

JANUARY

January 9th
The President of the IDB, Luis Alberto Moreno, visits our head office.
Madrid, Spain

January 26th & 27th
European Microfinance Summit 2017 "New Perspectives on the Impact of Microfinance".
Barcelona, Spain

FEBRUARY

February 2nd
5th CSR Congress: *Social Responsibility in Public-Private Partnerships to achieve the SDGs: the principles governing corporations and human rights.*
Zaragoza, Spain

February 23rd
II International Conference *A practical look at inclusive businesses: Technology and innovation to overcome the last mile, challenges and opportunities.*
Madrid, Spain

MARCH

March 13th -24th
CSW61 (2017) *Commission on the Status of Women -* ECOSOC. *Women's Economic Empowerment in the Changing World of Work.* United Nations HQ.
New York, USA

March 13th
Rural and Indigenous Women: Economic Empowerment and Food Security. United Nations HQ.
New York, USA

March 15th & 16th
Social Investor Meeting on Responsible Inclusive Finance 2017.
Zurich, Switzerland

March 16th
OECD NetFWD 2017 Annual Meeting. "Philanthropy for development: What should this look like in 2030?" panel.
Paris, France

March 16th
Master class on *Corporate Governance: progress and trends* in the XI Microfinance Training Program, Boulder Institute.
Mérida, Mexico

March 16th & 17th
13th Annual Global Microfinance Forum "Future Challenges and how Microfinance will look in 10 years."
Prague, Czech Republic

March 24th
Conference by the Chairman of the Board of Trustees of BBVAMF *Current challenges facing microfinance in Latin America*. Organized by AECID.
Madrid, Spain

March 29th
Measuring social impact: the case for microfinance by Spainsif.
Madrid, Spain

March 30th
The Microfinance Industry: "Revolution or footnote, Lessons for the next 10 years".
Pennsylvania, USA

APRIL

BID · CII
PARAGUAY2017

April 1st
IDB Board of Governors Assembly.
Asunción, Paraguay

April 19th
Banca @ Google Madrid workshop. *Case history: BBVAMF.*
Madrid, Spain

MAY

May 10th
Documentary on *Televisión Española's Informe Semanal Historias de Superación* about our women entrepreneurs receives the Silver Globe award at the Media Global Festival.
Hamburg, Germany

May 17th
Acknowledgement as one of *The 10 most innovative social initiatives of 2016* from the Development Bank of Latin America (CAF) and the journal *Compromiso Empresarial* for the *Amigotchi: Simón* project.
Madrid, Spain

May 17th
V AFIDE National Entrepreneurship Congress: *Education, Development & Social Innovation, keys for a better society.*
Panama City, Panama

May 19th
Meeting of the Private Sector Advisory Group of the SDG Fund, UN.
New York, USA

May 29th
BBVAMF's 10th Anniversary celebration: *Financial Inclusion & Development* chaired by H.M. the Queen of Spain. Speakers included Francisco González, BBVA Group Executive Chairman, Angus Deaton, Nobel laureate in Economics and other experts.
Madrid, Spain

JUNE

June 8th

SPTF Annual Meeting. *Measuring and using client outcomes data* panel.
Mexico City, Mexico

June 14th

Carlos Torres, Chief Executive Officer of BBVA, visits our entrepreneurs.
San Juan de Lurigancho, Peru

June 21st

10 years of the BBVAMF: Fighting poverty from the private sector, presentation of the 2016 Social Performance Report.
Lima, Peru

June 29th

Development and social impact of microfinance in Colombia: sector challenges and opportunities forum, presentation of the 2016 Social Performance Report.
Bogotá, Colombia

JULY

July 5th

Presentation to the Chilean media of the 2016 Social Performance Report.
Santiago de Chile, Chile

July 18th

Productive Finance in the Dominican Republic forum, presentation of the 2016 Social Performance Report.
Santo Domingo, Dominican Republic

July 20th

Presentation of the 2016 Social Performance Report.
Panama City, Panama

SEPTEMBER

September 6th

Empowering Women in the Economy conference organized jointly with the United Nations' General Secretariat's High-level Panel on Women's Economic Empowerment, UN Women, DFID and Business Fights Poverty.
London, United Kingdom

OCTOBER

October 2nd

Lecture; *The importance of education and its links to finance and development*, opening the academic year at the University of Granada.
Melilla, Spain

October 30th

Towards a national financial inclusion strategy, conference organized by the Central Bank of Costa Rica.
San José, Costa Rica

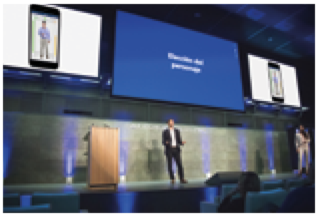
NOVEMBER

November 3rd

– Meeting of the Private Sector Advisory Group of the UN's SDG Fund.
– Presentation of the *Business & SDG 16* report at the HQ of the United Nations.
New York, USA

November 16th

6th GWC Executive Edition, the largest conference of leaders in gamification for transforming companies and society, with *Simón: leadership and team management*.
Madrid, Spain



November 17th

The regional director of UN Women for Latin America and the Caribbean, Luiza Carvalho, visits our HQ.
Madrid, Spain

November 21st

OECD DevCom Annual Meeting 2017 "Listening, Learning & Linking Up: Communicating in the SDG era."
Paris, France

DECEMBER

December 14th

Presentation of the UN report *Business and SDG 16: Contributing to peaceful, just and inclusive societies.*
Madrid, Spain

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Outstanding acknowledgements

BBVA Microfinance Foundation

United Nations Award
Social Investment Pioneer (2012)

SOCIAL INVESTMENT
PIONEER AWARDS

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

United Nations awards **consultative status on the ECOSOC** (2016)

The 10 best transparency and good governance initiatives 2015-2016, for BBVAMFG's Corporate Governance Code, *Compromiso y Transparencia* Foundation

BBVAMF's social measurement system was recognized as *best practice* in the Harvard Kennedy School report: *Business and the United Nations. Working together towards the SDG: A framework for Action*, commissioned by the SDG Fund (2015)

BBVAMF Group's methodology, Productive Finance, was showcased in the **UN's SDG Fund *Universality and the SDGs: A Business Perspective*** (2016)

The 10 most innovative initiatives in 2016, for the digital learning project *Simón*, CAF-Development Bank of Latin America and the journal *Compromiso Empresarial*

Honorary Mention for Innovation for the program *Simón*, in Wolters Kluwer's Human Capital awards (2017)

Institutions

Colombia

Bancamía

Colombia's Securities National Fund Award 2010
Best institution in Risk quality

Mix Market
Transparency certificate,
5 Diamonds (2010)

Smart Campaign
Ethics Code among the
10 Best in the World (2012)

Recognition by the Colombian Reintegration Agency
in the entrepreneurship category (2017)

Chile

Fondo Esperanza

Mix Market
Transparency certificate. 5 Diamonds in transparency, quality and reliability (2008)

***Superintendencia de Bancos e Instituciones Financieras* [Supervisory Body for Banking and Financial Institutions]**
Award for Financial Education in the Contribution to Financial Inclusion category, for the *Excluded Segments* program (2016)

Chile

Emprende Microfinanzas

Mix Market
Transparency certificate. 5 Diamonds in transparency, quality and reliability

Dominican Republic

Banco Adopem

IDB-FOMIN
- Institution with Best Outreach (2009)
- Best Microfinance Institution in Latin America and the Caribbean (2010)
- Best Microfinance Institution in Latin America and the Caribbean (2012)
- Inter-American Award for Financial & Business Innovation, in the *Financial Services to Smallholder Farmers* category (2017)

Mix Market
Transparency certificate
5 Diamonds (2013)

Mix S.T.A.R.
Socially Transparent and Responsible Certificate (2014)

Citi Microentrepreneurship Awards for **Most innovative microfinance institution of the year** (2013)

Women's World Banking (WWB)
- Recognition for Leadership (2013)
- Award for Excellence in Leadership (2016)
- Award for Excellence in Leadership (2017)

Smart Campaign certification 2015

Microrate
- Best MFI in Latin America (2015)
- Best MFI on an international scale in institutional performance (2017)

Argentarium
Argentarium Award 2016

Panama

Microserfin

Mix Market
5 Diamonds certification for transparency, quality, reliability of financial information (2014)

Mix Market IDB-FOMIN
Only Panamanian company in the overall ranking *Microfinance in the Americas: The 100 best of 2014*

Panamanian Credit Association
- APC Award for satisfaction, data maintenance and compliance (2015)
- APC Award for compliance and Award for data maintenance (2014)
- APC Award for satisfaction, data maintenance and compliance (2013)

Peru

Financiera Confianza

Mix Market IDB-FOMIN
Transparency certificate. 5 Diamonds in transparency, quality and reliability (2008)

Award for the most innovative financial institution in 2015 for its *Ahorro para todos* [Savings for all]
Citi (Premic) award

Mix Market IDB-FOMIN
First Peruvian financial institution in microenterprise outreach, in the overall classification *Microfinance Americas: The 100 best in 2014* ranking.

Among the *300 best companies in Peru and Latin America* in the magazine *América Economía's* ranking (2013)

FAO. Honorary Mention in the category of Rural Women for the life story of Rut Pelaiza, officer with the Peruvian institution (2017)

2017 Social Performance Report

Measuring what really matters

1,941,232
Total clients

33%
Rural environment

BBVAMF

60%
Women

USD 1,412,998,093
Amount disbursed

Table of contents

Introduction
68

Committed to serving low-income clients

Keeping the focus on economically vulnerable clients
71

Committed to social vulnerability: identifying the poorest segments
74

The geographical context: poverty maps
77

Charting micro-entrepreneurs' progress

What our clients experience: income uncertainty
82

What our clients experience: investment choices grounded in liquidity and flexibility
83

Poor and non-poor entrepreneurs' economic performance
85

Investment in productive assets
88

Other non-financial impacts
90

Client relationships, serving different needs

Relationship with our credit clients
94

Relationship with our savings clients
95

Relationship with our microinsurance clients
97

Conclusion
100

Macroeconomic analysis
102

Aggregate data
108

Notes on methodology
114

Total clients

1,941,232

In Latin America, 184 million people still lack access to the formal banking system*. Access to financial services drives the spirit of entrepreneurship.

It represents an opportunity to increase revenue, smooth consumption, increase productive investment and obtain coverage. A key tool for transformation that in turn improves living standards for low-income people.

---

* To 2017, based on information from Global Findex (World Bank) and BBVAMF Research estimates.

Credit clients

911,312

80%
Vulnerability[1]

60%
Women

33%
Rural environment

43%
Primary education at best [2]

New credit clients

272,987

84%
Vulnerability [1]

57%
Women

31%
Rural environment

36%
Primary education at best [2]

875
USD
Average disbursement [3]

189
USD
Monthly net income *per capita*

3.2
people
Household size

---

1. According to each country's official poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three, are classified in *vulnerability*. **2.** Proportion of all credit clients who have completed primary education, at best. **3.** Average disbursement: average disbursement by new clients served during 2017.

Source: BBVAMF Group institutions. BBVAMF calculations.

The BBVAMF Group serves over 1.9 million people with financial products and services, together with training. The success of their projects and their level of development and living standards, depend to a large degree on having access to these products and services.

BBVAMF Group institutions' work hinges on Productive Finance methodology, built around micro-entrepreneurs and their needs, to analyze and understand their reality, their surroundings, their business and their capacity to generate long-term net incomes. It is a key factor in ensuring their sustainable economic progress.

During the course of 2017, the six institutions in the BBVA Microfinance Foundation Group (BBVAMF Group or the Group) have worked with over 1,900,000 low-income entrepreneurs offering financial products and services (credits, savings, insurance, remittances, etc.) and training to support their progress.

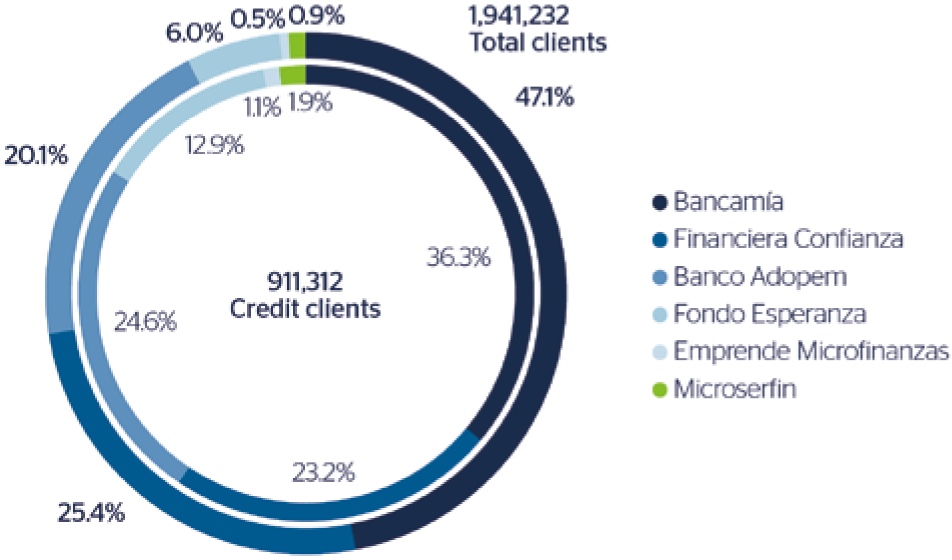
With Productive Finance, which works on the basis of personal client knowledge, their surroundings and their reality, the Group is helping micro-entrepreneurs to generate net incomes that are sustainable over time. Detailed, regular measuring of their progress ensures they are aligned with the Group's mission and converts it into actionable impact.

BBVA Microfinance Foundation (BBVAMF or the Foundation) has a proprietary system of quantitative and qualitative metrics that systematically and periodically analyze the stages that entrepreneurs go through as their businesses and their standard of living develop throughout the course of their relationship with the institutions.

This enables it to accumulate knowledge about its clients, acquired year on year, disclosed in five social performance reports published, in which the financial, societal conditions they are dealing with, and their local context, are analyzed. We need to keep this level of knowledge up to the mark and enrich it, working towards more active management in the sector.

The Social Performance Report is, therefore, a reflection of the Foundation's commitment to measure the progress of the entrepreneurs it serves, to understand and find ways of improving the service offered and the social impact. Most of the analysis has been

1. BBVAMF Group clients



Source: BBVAMF Group institutions. BBVAMF calculations.
Current clients at 12.31.2017

conducted on credit clients, given the availability of detailed information about them and their businesses.

The effort to better understand clients' progress and thus serve them better, is visible throughout the report, and has been addressed across **three areas:**

- **1. Commitment to low-income clients:** recognizing vulnerability in all its manifestations (economic, social and geographic).

- **2. Observing how entrepreneurs progress:** analyzing their performance in order to reach a deeper understanding of their preferences and needs.

- **3. Client relationships:** staying by our clients' side with financial products and services that match their needs as they grow, together with training.

This report analyzes the changes in the characteristics of our clients and the progress of their enterprises, while they access the products and services in our institutions. How these entrepreneurs develop depends on a series of factors that include their individual abilities, the decisions they take, how their immediate surroundings change, etc., where the provision of financial services represents an essential added component. So, the Foundation analyzes this performance but does not self-attribute causality for these impacts.

The results obtained show that vulnerability generates inefficiencies when taking decisions and that in order to serve clients better, their development cycle needs to be analyzed in depth.

When that analysis is broken down, looking at clients in poverty, the key **factors that condition their performance are**:

- **a.**Their environments (rural/urban), which impacts on their living conditions, competition, demand, etc.

- **b.**The productive sector in which they are conducting their activity, particularly those in which it is relatively easy to obtain short-term incomes that help them overcome poverty.

- **c.** The initial investment in assets, the accumulation of reserves or of capital that enables them to generate income in the future.

Identifying these characteristics is the first step in defining the aspects that impact on their development. They are the basis for a more efficient client segmentation.

In addition, the level of stability in generating client incomes and, as such, the difficulty in managing adverse events, affects all segments equally. The greater the instability, the lower the asset accumulation over time. This must therefore also be taken in to account when accompanying the client over time.

Overall, the analysis of outcomes shows how entrepreneurs' performance is positive in the medium term, in particular in areas relative to job creation, housing and the client's education.

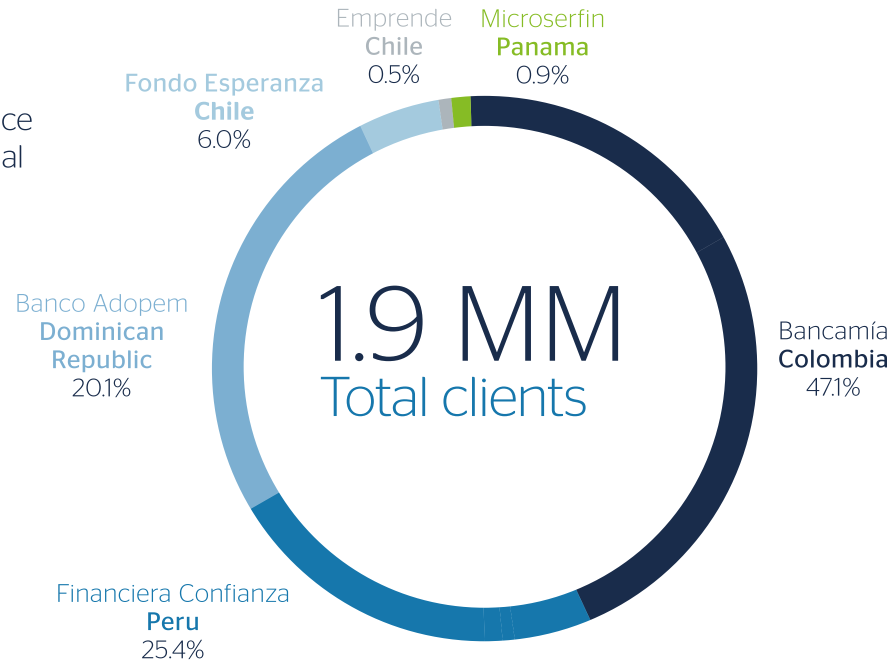
Committed to serving low-income clients

BBVA Microfinance Foundation has a constant commitment to serve vulnerable entrepreneurs.

The multidimensional nature of this vulnerability means that microfinance should focus on the economic, social and geographical contexts of each country.

911,312
Credit clients

272,987
New credit clients



Economic vulnerability

80%
of credit clients are poor or at risk of falling into poverty*

Clients current at 12.31.2017.
*Their net incomes, per household member, are less than 3 times the poverty line

Social vulnerability

60%
Women

33%
Rural environment

43%
Primary education, at best

The level of education, gender and the environment are factors shared by the poorest clients

Clients current at 12.31.2017

Geographic vulnerability

70%
of new clients live in areas with high or medium levels of poverty

New clients in 2017

BBVA Microfinance Foundation's mission is centered on a permanent commitment to serving vulnerable clients working in productive activities (i.e. entrepreneurs). Vulnerability can take many forms, and in the BBVAMF Group we look at it on the basis of three aspects:

- *Economic vulnerability*, which is based on the calculation of entrepreneurs' net business incomes and, as such, on the financial resources available for their households.

- *Social vulnerability*, that analyzes the composition of the client profile that might condition someone's vulnerability, so, for example their level of education, their gender, their age, etc.

- Environment and/or geographical context, which considers the region in which they live and conduct their activity since infrastructure and access to certain resources can condition their development.

The Foundation tracks these characteristics and ensures that the new entrepreneurs it serves meet some of these vulnerability criteria, in line with its mission.

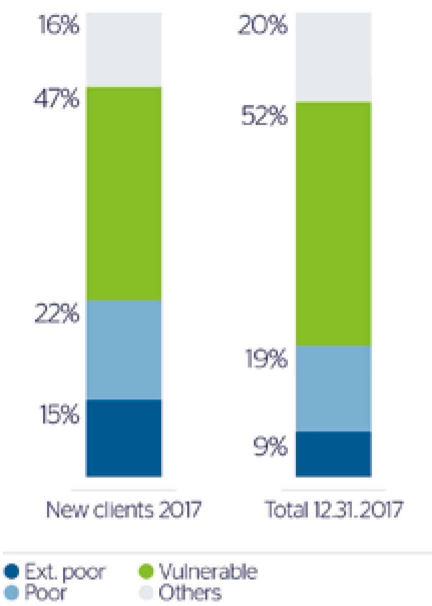
1. Keeping the focus on economically vulnerable clients

Classifying each client by economic *vulnerability* is a cornerstone in the social impact measurement of the BBVAMF Group's activity. Entrepreneurship is key if low-income people are to raise their economic incomes in the longer term and bring up their families. It is significant that entrepreneurs in Latin American countries account for 28% of the active population *(See Macroeconomic analysis).*

For this reason, the BBVAMF Group promotes the generation of financial opportunities for entrepreneurial people who are excluded from the traditional financial system, or left behind, and in vulnerability; this economic situation is then measured over time.

We have defined four client segments depending on the ability of their micro-enterprises to generate net income for each household member, above the cost of the basic basket of foodstuffs (each country's extreme poverty line); and another, wider group, with the cost of basic services (the poverty line), with both of these differentiated between urban and rural environments. They are classified as:

2. Client economic vulnerability



Source: BBVAMF Group institutions.
BBVAMF calculations.

- **Extremely poor:** when their *per capita (p.c.)* surplus (or net income) is lower than the corresponding extreme poverty line.

- **Poor:** when their net income is lower than the corresponding poverty line but above the extreme poverty line.

- **Vulnerable:** when their net income is less than three times more than the poverty line.

- **Others:** when their net income is more than three times the multiple of their country's poverty line*.

Looking beyond poverty, there is a segment of clients, the "economically *vulnerable*", (incomes under three times the poverty line) defined given their likelihood of falling back and/or remaining under the national poverty line (See *Notes on methodology* for more details).

This classification is proprietary and comparable with the standards used by international bodies such as the United Nations and the World Bank. For example, if we look at the extremes of poverty and extreme poverty lines in the countries where the Group's six entities operate, the entrepreneurs classified as *extremely poor* have monthly net surpluses for each person in the household of under USD 35 (USD 1.1 a day) in Colombia's rural areas and of USD 71 a month (USD 2.3 a day) in Panama's urban areas. *Poor* entrepreneurs have incomes of less than USD 56 a month (USD 1.8 a day) in Colombia's

---

2. New clients (no previous loans) signed up over the year. "Total" represents clients current at 12.31.2017.

* Clients under the poverty line or in poverty include *extremely poor* and *poor* clients, and clients over the poverty line or in non-poverty, are those classified as *vulnerable* or *others*. *Vulnerability* includes *extremely poor*, *poor* and *vulnerable* entrepreneurs.

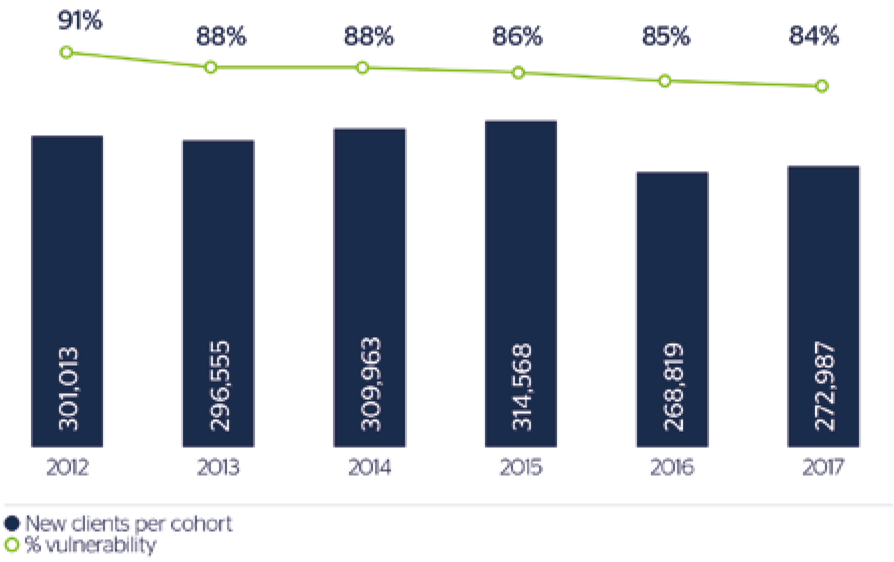
1. Keeping the focus on economically vulnerable clients

rural areas and USD 145 a month (USD 4.8 a day) in the urban parts of Panama.

We should note the case of Chile, where the segmentation has been adapted to that country's criterion and the measurement of *extreme poverty* covers not only a basket of foodstuffs, but also includes clothing and housing. Chile's poverty line is between two and three times higher than that of the remaining countries, in line with its level of development. In this country, the minimum monthly income necessary to avoid being classified as *extremely poor* is USD 166 (USD 5.5 a day), and USD 249 (USD 8.3 a day) to overcome poverty (See *Notes on methodology* for more details).

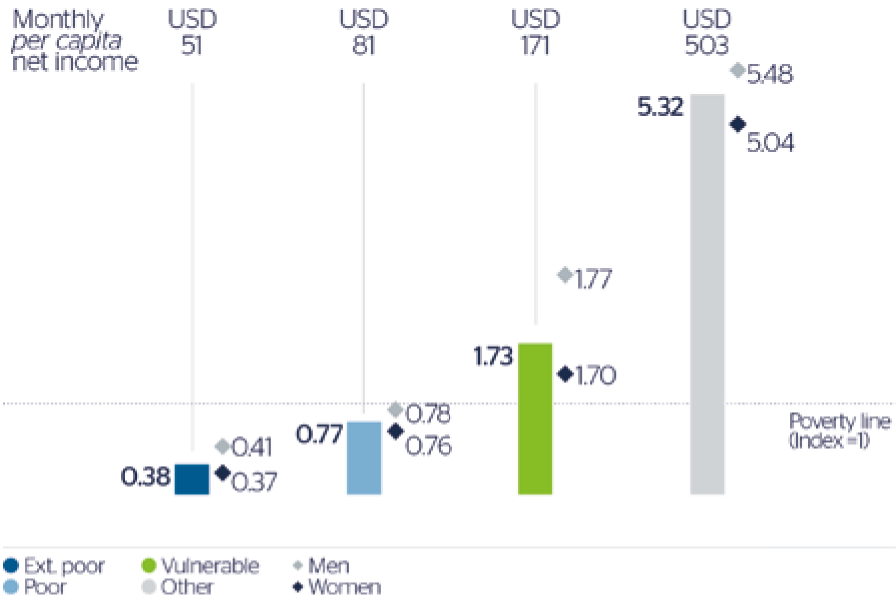
In 2017, the BBVAMF Group granted loans to 272,987 new entrepreneurs. Of these, 84% are classified in economic *vulnerability*. Over time, BBVAMF Group institutions continue to focus on entrepreneurs in *economic vulnerability* (in line with previous years). In fact, *extremely poor* entrepreneurs generate a monthly net income of USD 51, which amounts to 38% of the poverty line. In other words, their income would have to grow by at least 163% to top that line. For *poor* entrepreneurs, the average income generated by their businesses is USD 81 a month, and this would have to grow by 30% to breach the poverty line. *Vulnerable* entrepreneurs with a monthly income of USD 171 breach the poverty line by 73% (their net income is a multiple of 1.73 of the poverty line).

3. New credit clients and economic vulnerability



Source: BBVAMF Group institutions. BBVAMF calculations.

4. New clients' net income, relative to the PL



Source: BBVAMF Group institutions. BBVAMF calculations.

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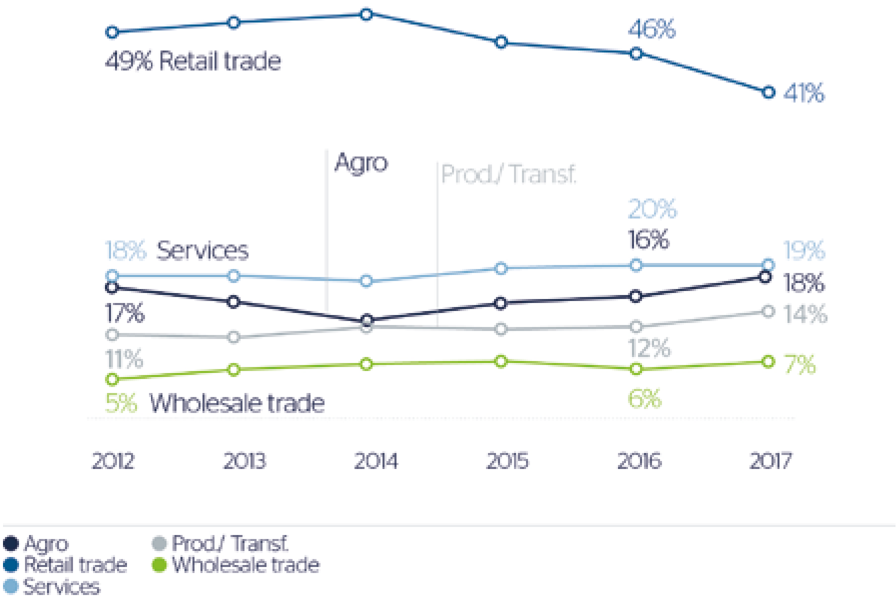
3. New clients (no previous loans) signed up each year. **4.** New clients (no previous loans) signed up over the year. *Per capita* monthly net income relative to each country's official poverty lines. The p.c. monthly net income takes the value of one when it is the same as the poverty line.

Note: The historical data has been refined, and so differs slightly from that published in earlier reports. The methodological changes refer to the changes in clients' classification by environment in Colombia, the new poverty line in Chile and the greater availability of historical data (in all institutions).

Retail trade continues to be the predominant sector (41% of new clients and 47% of all current clients). Entrepreneurs prefer to conduct their activities in flexible sectors, where it is easy to change their type of business, so they operate with low costs and lower asset volumes. For example, on average, client assets in the Retail trade sector (where the most *vulnerable* clients are to be found) are USD 7,548 compared to USD 11,006 in Services*. The Services sector (18% of all clients) concentrates the less *vulnerable* clients and reports higher margins and asset volumes.

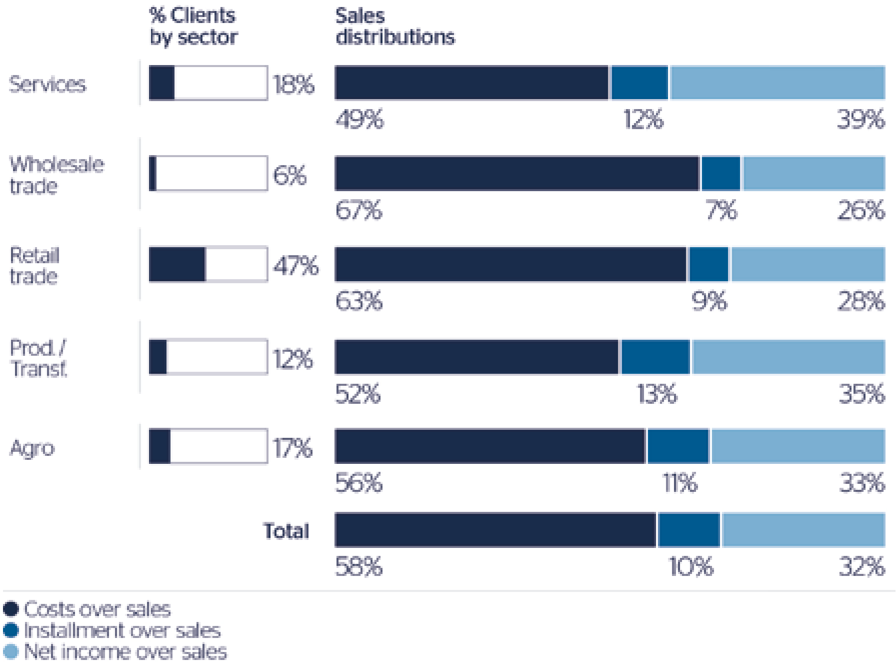
There has been an increase in sector diversification, with a higher proportion of new clients in Agriculture (17% in total) and in Production / transformation (12%, bakers, artisans, etc.). This is the result of developing new service channels and of the efforts made by the BBVAMF Group to expand its activity into new areas.

5. New clients, by sector



Source: BBVAMF Group institutions. BBVAMF calculations.

6. Sales distribution, by sector



Source: BBVAMF Group institutions. BBVAMF calculations.

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5. New clients (no previous loans) signed up each year. **6.** Current clients at 12.31.2017. Business expenses (costs), installment payment and the net income are split between monthly sales.

2. Committed to social vulnerability: identifying the poorest segments

Over the course of 2017 we continued to serve clients in the key segments we have identified as being priority from the social perspective:

- Women, who account for 57% of new clients.

- Those with basic education (primary, at best), who represent 36% of new clients.

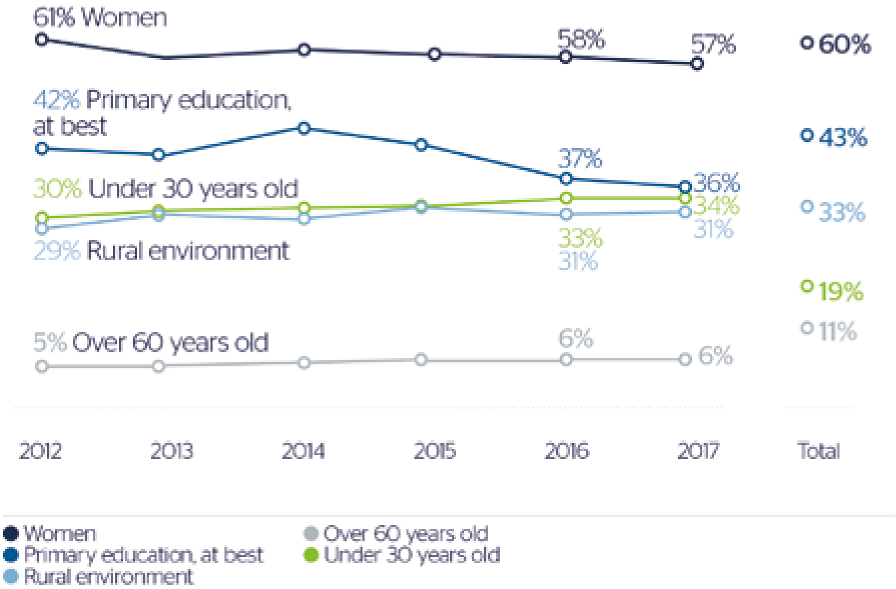
- Young people (under 30 years old), who account for 34% of new clients.

- Older people (over 60), who make up 6% of all new clients.

- Rural clients, who represent 33% of new clients.

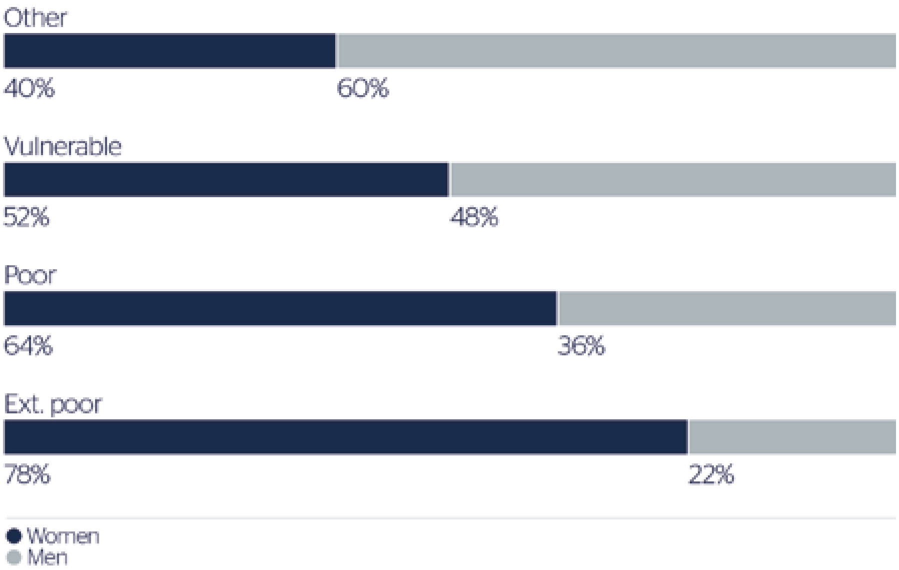
Our focus on serving women was very marked because accessing the financial system is more difficult for them. In Latin America in general, women do not have their own source of income (the likelihood of a woman being unemployed is particularly high in emerging economies), and their level of human capital (education) is lower than the regional average, so they face greater entry barriers to becoming an entrepreneur or accessing the labor market *(See Macroeconomic analysis)*. Of all new clients served during 2017, 57% are women and, of these, 45% are in poverty. Furthermore, women represent 78% of clients classified as *extremely poor* and 64% of those classified as *poor*.

7. Socio-economic profile of credit clients, new & total



Source: BBVAMF Group institutions. BBVAMF calculations.

8. New credit clients' vulnerability, by gender



Source: BBVAMF Group institutions. BBVAMF calculations.

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7. New clients (no previous loans) signing up each year. Total shows the number of clients current at 12.31.2017. **8.** New clients (no previous loans) signing up during the year.

Their enterprises generate lower returns, on average, and as a result they suffer from worse levels of economic *vulnerability*. This is partly due to the fact that they have to take on all household tasks, and because their occupation is in sectors with low productivity (Retail trade, 56% of all women). Furthermore, there are increasing numbers of women in Latin America who bring up their children on their own: 43% of women served by the Group are single, separated or widows, with family dependents*.

In 2017 we conducted a multivariate study** to identify those socio-demographic and economic attributes characterizing clients whose businesses generate income below the poverty line. The study enabled us to pick out correlations and define segments where poverty is more acute.

We identified three shared factors determining a greater concentration of the *poor* and *extremely poor*:

- Gender: this is one of the most important variables when accounting for the poverty of entrepreneurs. In all Group entities, being a woman implies greater economic *vulnerability*, even when the client's other characteristics are the same. We have seen this in the *poorest* segments analyzed in most of the Group's entities.

- Environment: living in a rural or urban environment conditions people's poverty level. At a nationwide level, poverty is concentrated in rural environments, where access to financial services and other essential services is more difficult than in urban environments.

- Other household income: clients with other household income (i.e. not from their business) have smaller enterprises, perhaps because they do not spend all their time on it, and instead rely more on additional income streams.

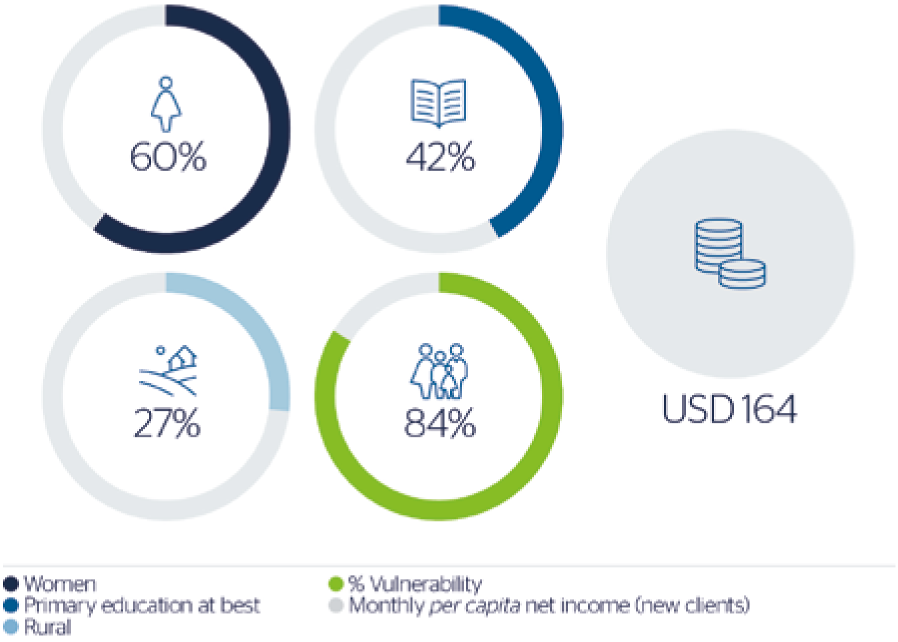
> *In 2017, the BBVAMF Group granted loans to 272,987 new entrepreneurs. Of these, 84% were in economic* vulnerability

Other specific variables stand out in certain countries***:

- Education: there is a positive correlation between clients' level of education and their income (the higher the education, the lower the poverty), and the correlation is particularly strong in Panama.

- Other living conditions: for example, housing construction materials in Colombia or the type of premises in which the business operates in the Dominican Republic are highly determinant factors.

9. **Entrepreneurial women BBVAMF Group clients, characteristics**



Source: BBVAMF Group institutions. BBVAMF calculations.

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9. Women clients current at 12.31.2017. Average *p.c.* monthly net income of new female clients in 2017.

*Average assets for clients current at 12.31.17.
** See *Notes on Methodology* for more details.
***The volume of assets, measured relative to the type of activity or sector in which the client is active, is one of the significant variables when determining poverty. Nevertheless, due to its high correlation with the classification of poverty (business surplus) it has not been included in the segmentation.

2. Committed to social vulnerability: identifying the poorest segments

- **Age group**: as the years go by, people normally accumulate assets (fixed and financial) that reduce their vulnerability. However, if no public policies to protect and provide pension cover for older people are in place, they are obliged to work to obtain or supplement their incomes. In these cases, older clients may suffer higher levels of poverty (as is the case in Panama).

Four segments have been identified in the group that account for 58% of the *poor* clients served in 2017; in turn, these represent 42% of new clients signed up:

- Urban women with other sources of income from within the household (15% of clients under the poverty line).

- Rural women working in Agriculture (5% of clients under the poverty line).

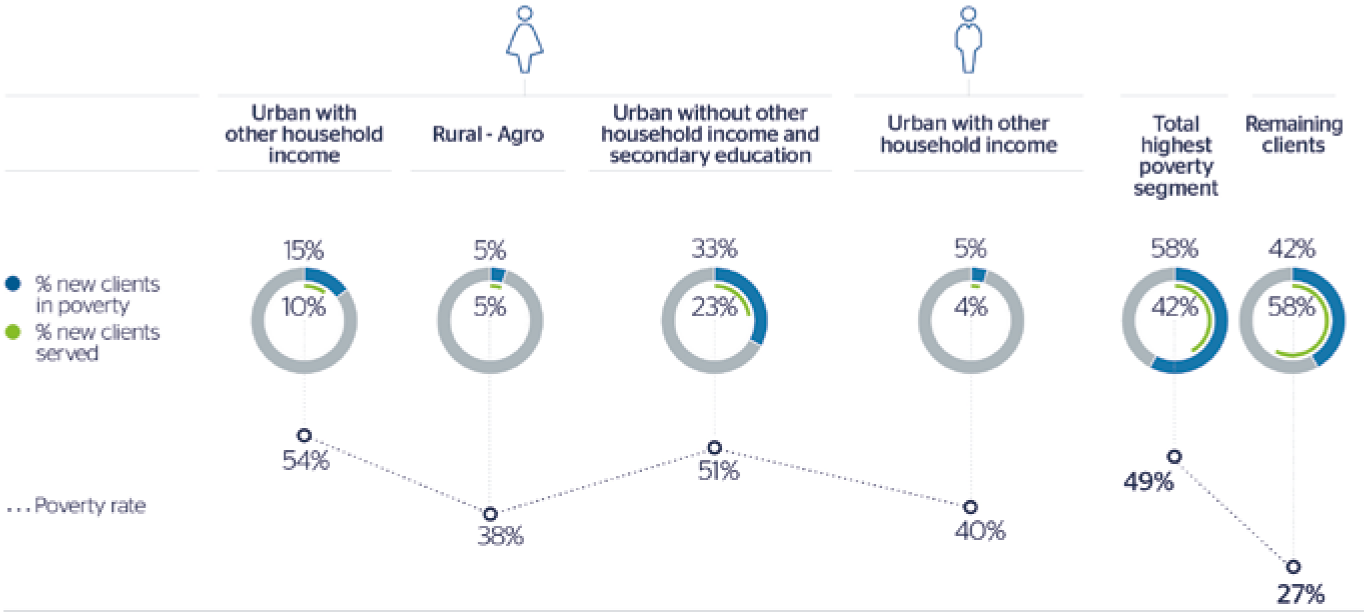
- Urban women with primary education only, whose micro-enterprise is their sole source of revenue (33% of clients under the poverty line).

- Urban men with other sources of income from within the household (5% of clients under the poverty line).

The poverty rate* of these segments is 49%, and the first segment "Urban women with other sources of income from within the household", suffers from the highest level of poverty (one in every two clients in this category lives under the national poverty line). It is also useful to note that, although sharing the same characteristics as the previous segment (apart from gender), the "Urban men with other sources of income from within the household" segment has 14% lower incidence of poverty.

> *Women must be supported, because they face higher barriers to entry and are in the segments with the highest economic* vulnerability

10. **New entrepreneurs by segment, with higher poverty rates**



Source: BBVAMF Group institutions. BBVAMF calculations.

3. The geographical context: poverty maps

Latin America is highly heterogeneous in terms of its development dynamics by region and province, mainly as a result of asymmetries in access to infrastructure and resources, and because of sociocultural differences. It is particularly interesting to contrast the profile of clients served by institutions with pockets of poverty defined nationally. This allows for more focused plans to manage and service new clients.

Given that the only information available at a national level is about clients under the poverty line, this is the benchmark indicator used. The BBVAMF Group has created an indicator that measures the percentage of *poor* and *extremely poor* clients served in 2017 in each country's regions (provinces) (referred to hereinafter, for this section, as new *poor* clients by region).

The BBVAMF Group concentrates on clients with productive activities, with a particular focus on the most vulnerable areas in the countries in which it operates, where it generates a greater positive impact in people's development. A quarter of total clients are in areas of greater poverty and a third of new clients signed up in 2017 are *poor*. This indicator is higher in some specific regions*, so, for example, it is 50% in La Guajira (Colombia), 38% in the Amazon region of Loreto (Peru), 52% in Elias Piña (the Dominican Republic), and 62% in Bocas del Toro (Panama).

It should be pointed out that in areas of greater population density, such as capital cities, a high number of *poor*** people are concentrated, but in relative terms, the proportion of poor urban clients at national level is lower than in rural regions (so, 49% of clients are *poor* in Callao, Peru, and 47% of clients are poor in Distrito Nacional, in the Dominican Republic).

The pockets of poverty in each country and the majority of the *poor* entrepreneurs served by the Group's institutions are in rural areas, where access to infrastructure and basic services is limited. In particular, the high dispersal of the population and the inability to access markets (e.g. in the sierra area of Peru and the Amazon zones of Colombia) are limiting factors when trying to give clients services tailored to their needs. This involves identifying those entrepreneurs who can overcome these obstacles with the help of a productive loan. It requires obtaining positive results in the activities they have the potential to undertake, regardless of the personal assets they may have (education, land ownership, etc.) to begin with. Client risk indicators should also be taken into account.

11. National poverty rate, total entrepreneurs and new, poor entrepreneurs served in 2017 in areas covered by BBVAMF Group

Measurement of nacional poverty	% Total current clients	% of poor clients served in 2017
High	24%	39%
Mediun	46%	27%
Low	30%	32%
Total		**33%**

Source: BBVAMF Group institutions. BBVAMF calculations.

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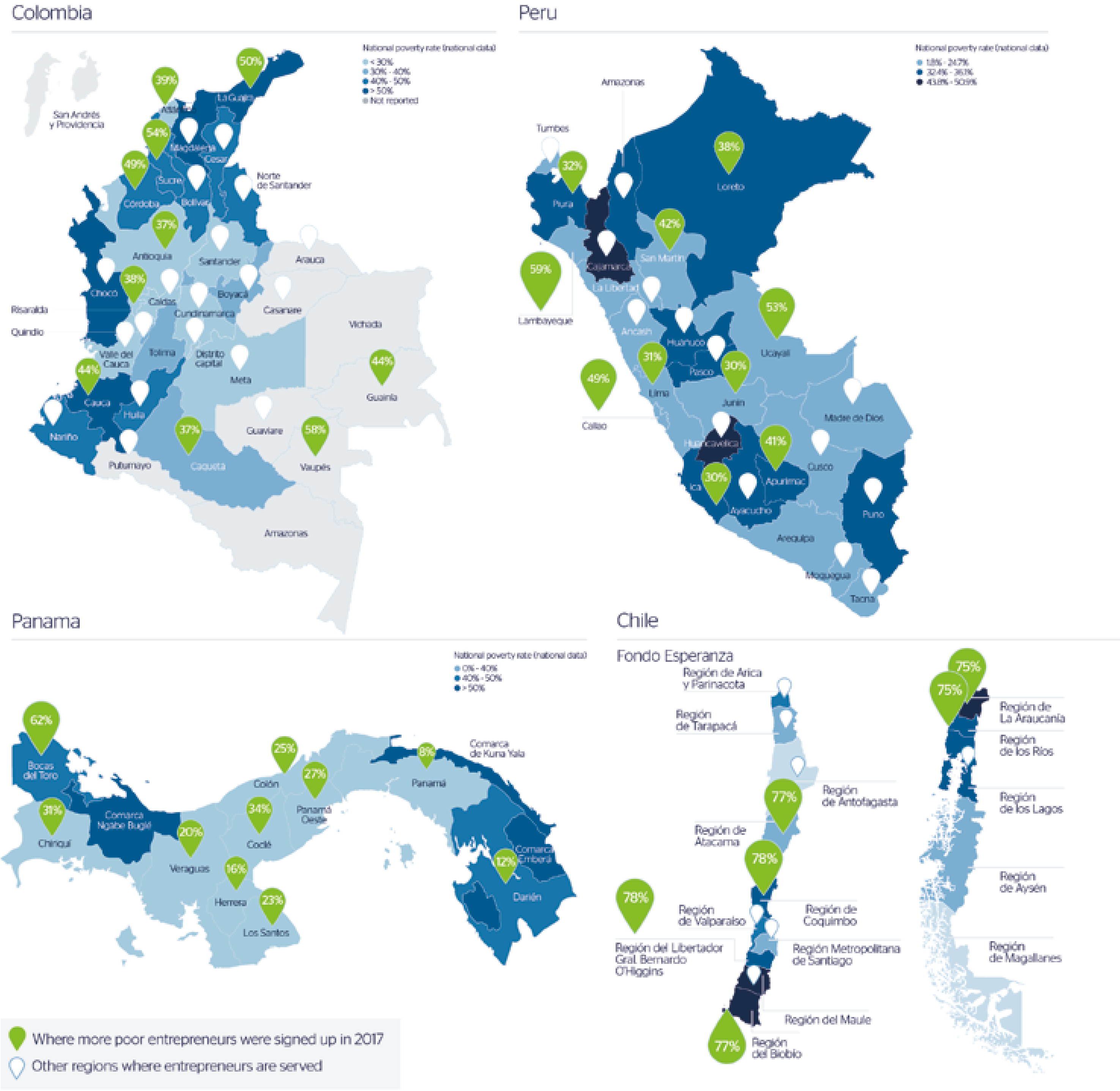
10. New clients (no previous loans) signing up during the year. 'Total' shows the sum of the participation of the segments analyzed, calculated over total new clients served in 2017. The remainder shows the participation of segments not included in the table, calculated over total new clients served during 2017. **11.** Regions classified according to the national poverty rate as "low" (below national 30%), "high" (above 60%) and "medium" (the remainder).'Total' shows the number of clients current at 12.31.2017. New *poor* clients signing up during the year are new clients in 2017 that are under the poverty line.

*Number of *poor* and *extremely poor* clients in proportion to total clients. **Regional poverty classifications vary from country to country in terms of date and poverty levels. ***Number of poor and extremely poor clients in proportion to total clients.

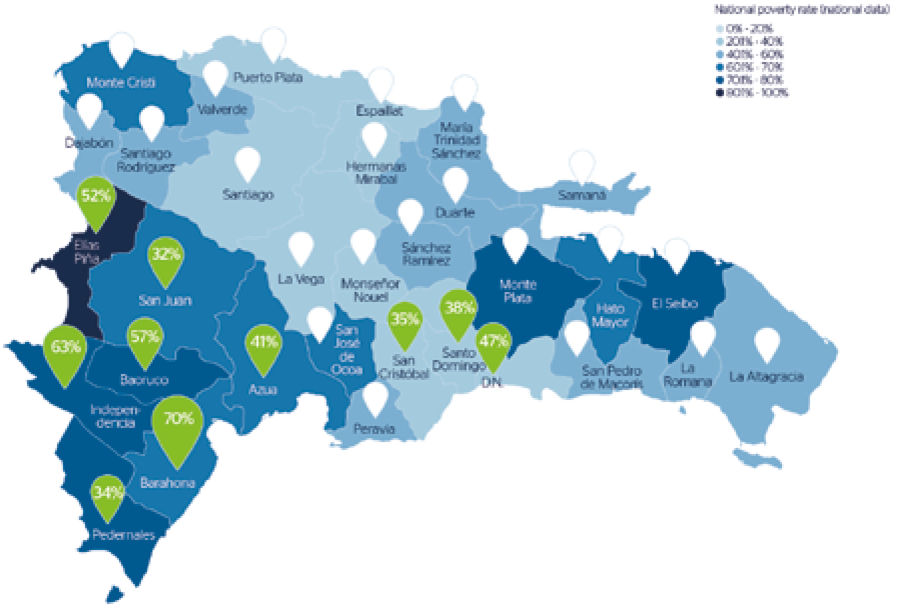
3. The geographical context: poverty maps

12. National poverty rate and new poor entrepreneurs served in 2017


Colombia
National poverty rate (national data)
< 30%
30% - 40%
40% - 50%
> 50%
Not reported
San Andrés y Providencia
39%
50%
Atlántico
La Guajira
54%
Magdalena
Cesar
49%
Sucre
Norte de Santander
Córdoba
Bolívar
37%
Antioquia
Santander
Arauca
38%
Chocó
Caldas
Boyacá
Casanare
Risaralda
Cundinamarca
Vichada
Quindío
Valle del Cauca
Tolima
Distrito capital
44%
44%
Meta
Guainía
Cauca
Huila
Nariño
37%
Guaviare
58%
Putumayo
Caquetá
Vaupés
Amazonas
Peru
National poverty rate (national data)
1.8% - 24.7%
32.4% - 36.1%
43.8% - 50.9%
Amazonas
Tumbes
38%
32%
Loreto
Piura
42%
59%
Cajamarca
San Martín
La Libertad
Lambayeque
53%
Ancash
Huánuco
31%
Ucayali
49%
30%
Pasco
Lima
Junín
Callao
Madre de Dios
Huancavelica
41%
30%
Cusco
Ica
Apurímac
Ayacucho
Puno
Arequipa
Moquegua
Tacna
Panama
National poverty rate (national data)
0% - 40%
40% - 50%
> 50%
62%
Bocas del Toro
25%
8%
Comarca de Kuna Yala
27%
Colón
Panamá
31%
Comarca Ngäbe Buglé
34%
Panamá Oeste
Chiriquí
20%
Coclé
Comarca Emberá
12%
Veraguas
16%
Darién
Herrera
23%
Los Santos
Chile
Fondo Esperanza
Región de Arica y Parinacota
Región de Tarapacá
75%
75%
Región de La Araucanía
Región de los Ríos
77%
Región de Antofagasta
Región de los Lagos
Región de Atacama
78%
Región de Aysén
78%
Región de Valparaíso
Región de Coquimbo
Región de Magallanes
Región del Libertador Gral. Bernardo O'Higgins
Región Metropolitana de Santiago
Región del Maule
77%
Región del Biobío
Where more poor entrepreneurs were signed up in 2017
Other regions where entrepreneurs are served

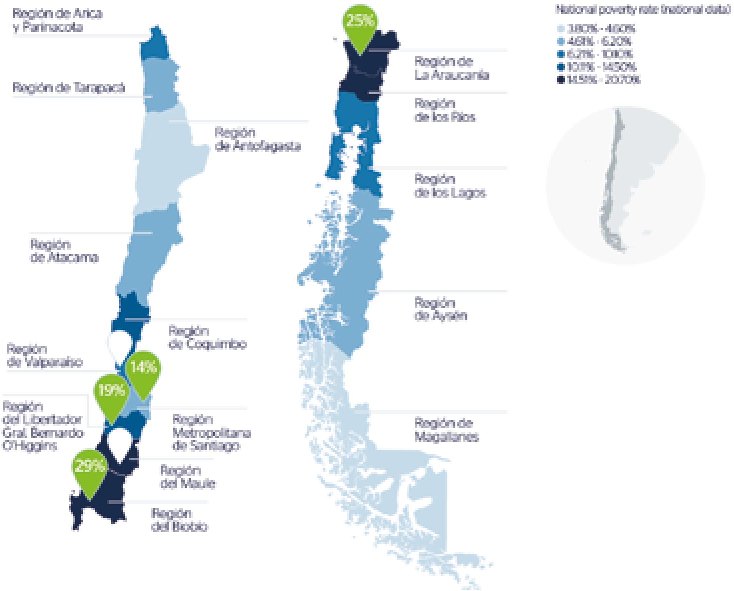
Source: BBVAMF Group institutions. BBVAMF calculations. Nacional poverty maps: Colombia (DANE, 206); Peru (INEI, Poverty maps by province and district, 2013); Dominican Republic (Ministry of the Economy, Population & Housing Census data, 2010); Panama (Ministry of the Economy & Finance, that publishes the national poverty rate by region, 2015); Chile (Casen, 2015).

Dominican Republic


National poverty rate (national data)
0% - 20%
20.1% - 40%
40.1% - 60%
60.1% - 70%
70.1% - 80%
80.1% - 100%
Monte Cristi
Puerto Plata
Valverde
Espaillat
María Trinidad Sánchez
Dajabón
Santiago Rodríguez
Hermanas Mirabal
Santiago
Samaná
52%
Duarte
Elías Piña
32%
Sánchez Ramírez
La Vega
Monseñor Nouel
Monte Plata
San Juan
38%
Hato Mayor
El Seibo
35%
63%
57%
41%
San José de Ocoa
47%
San Cristóbal
Santo Domingo
San Pedro de Macorís
La Romana
La Altagracia
Baoruco
Azua
DN
Independencia
70%
Peravia
Barahona
34%
Pedernales

Chile (cont.)

Emprende


Región de Arica y Parinacota
Región de Tarapacá
Región de Antofagasta
Región de Atacama
Región de Coquimbo
Región de Valparaíso
14%
19%
Región del Libertador Gral. Bernardo O'Higgins
Región Metropolitana de Santiago
29%
Región del Maule
Región del Biobío
25%
Región de La Araucanía
Región de los Ríos
Región de los Lagos
Región de Aysén
Región de Magallanes
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%

We need to work together, combining the body of knowledge held by BBVAMF Group entities with that of other players (public and private) to serve more *vulnerable* and/or *poor* clients sustainably. For this reason, the Group has defined separate social indicators, by region, to give a broader context to management and to move on from making an isolated to a collective impact.

This data corroborates the need to think in terms of a "shared model" that gets all parties on side (for the follow-up to come not just from an institution, but rather for the local reality to be taken into account). This will provide a joint understanding and approach when defining actions and is essential if greater impact is to be achieved. The poverty maps show client data, even as far down as branch level, and provide information that allows us to drive commercial intelligence in context, and team up with regional players, acting as a catalyst to achieve the greatest impact possible in the lives of our clients in situations of vulnerability.

The BBVAMF Group places special emphasis on the most vulnerable areas in which it operates, which offer the greatest potential for development

12. The regions with the highest percentage of poor new entrepreneurs served in 2017 (in green) and in the remainder, the zones where the institution is active. The background color indicates the proportion of poor households in the region, according to each country's national statistics institute; the darker the color, the higher the poverty rate.

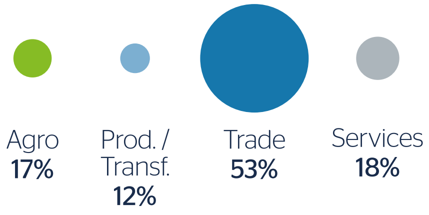
Charting micro-entrepreneurs' progress

Supporting our entrepreneurs as they progress enables us to learn much about their development, their needs and thus, to serve them better.

1. Our entrepreneurs' performance

Most entrepreneurs are traders, a sector with low barriers to entry

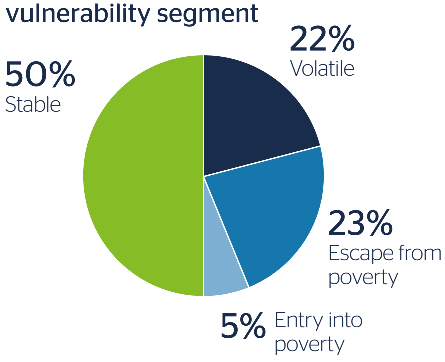
Total clients, by sector



Clients current at 12.31.2017

They have irregular incomes, and therefore tend to diversify their business activities

Change in client's economic vulnerability segment



Shows change in the poverty segments of clients served since 2011, with at least 5 loans disbursed.

They report sustained and positive growth rates on their net incomes and assets, over time

Net income and asset, growth rates

	Annual growth rate, since 2011	Average current value (USD)
Monthly Net Income	17%	568
Assets	24%	9,011

Clients current at some point in 2017 with updated information over the last 12 months with their MFI.

2. Indirect impact

On their standard of living, that of their families and their communities

8%
have improved their home after 3 years with the institution

190,112
people employed by our clients

3.2 people in the household
We serve around 2 million people

We have an impact on
≈ **7M** people

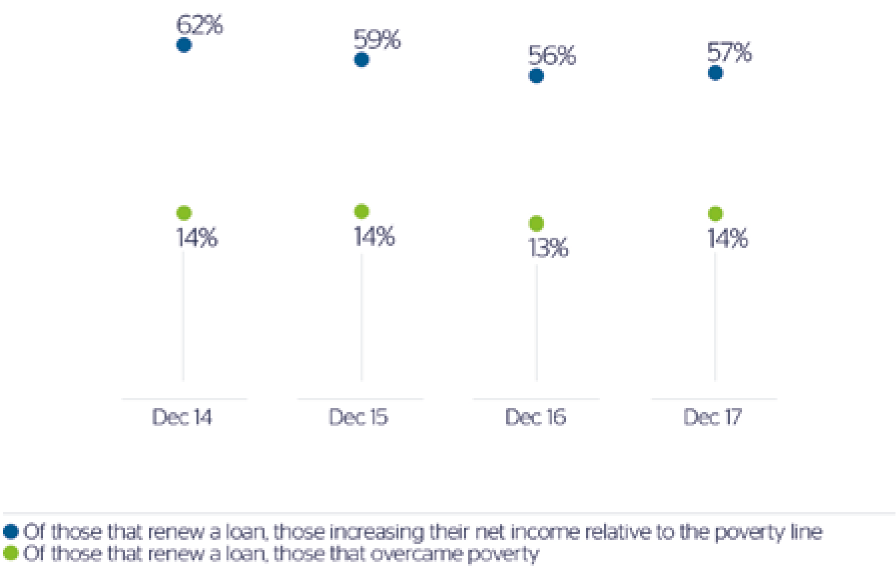
Indirect impact is based on data on clients current at 12.31.2017

57% of the more than 400,000 clients of BBVAMF Group institutions who have renewed their loan in 2017 have improved their income relative to the poverty line, a slight rise from the 2016 result of 56%. A third of these are clients were in *poverty* or *extreme poverty* at the beginning of the year, and the client segment under the poverty line has fallen by 14%.

Thus, we see a constant and upward rate of annual growth in our clients' businesses: their sales, net incomes and assets have grown by 16%, 17% and 24%, respectively, with higher growth rates among women, although they start from a lower base point. It is very important that we study entrepreneurs' growth cycles in depth, understand their performance and the characteristics that affect them.

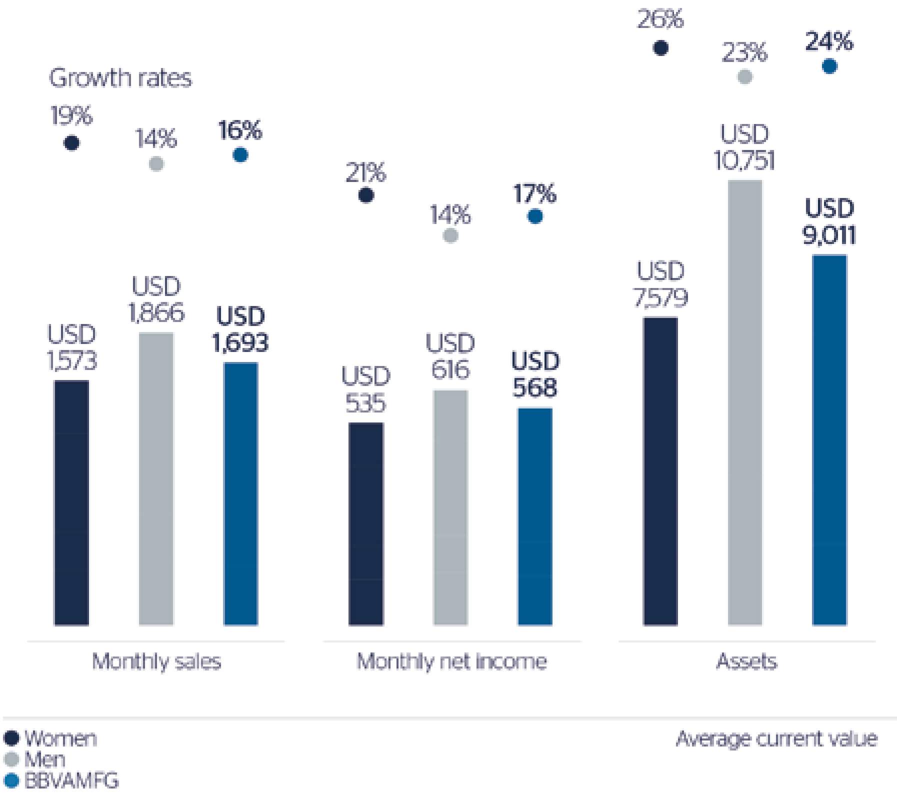
In order to do so, on the one hand, we have endeavored to better understand the clients who are in economic *vulnerability* and learn how they grow over time. On the other, we want to identify the determining characteristics of entrepreneurs who perform best (clients who escape poverty) and analyze the possible reasons that cause clients to fall into poverty.

13. **Clients served during the year, on each date. Performance**



Source: BBVAMF Group institutions. BBVAMF calculations.

14. **Annual growth of headline figures** (USD), **by gender**



Source: BBVAMF Group institutions. BBVAMF calculations.

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13. Clients who have renewed their loan each year. **14.** Clients current at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates for each gender is shown.

1. What our clients experience: income uncertainty

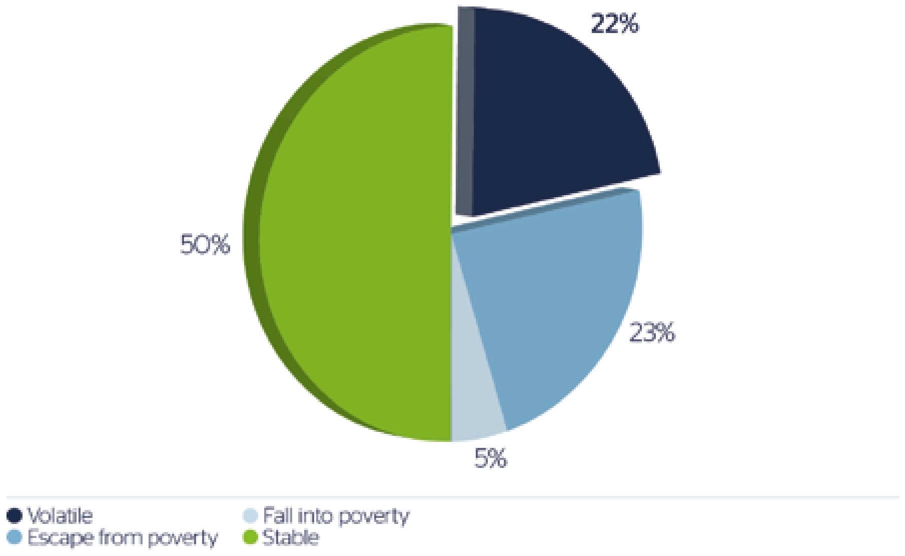
Changes in clients' *per capita* monthly net surplus are the result of a dynamic process; not all clients achieve sustainable growth and they frequently go back and forth over the poverty line because of the high volatility of their revenues (mobility). Instability and uncertain income is another dimension of vulnerability, exposing entrepreneurs to greater precariousness in the event of unforeseen circumstances and conditioning the decisions they take.

If we consider clients with at least five loans disbursed (since 2011)*, we see that 22% of them cross the poverty line at least twice, while the status of 50% of borrowers does not change throughout the course of the five loans they take out with the entity. This volatility is more pronounced when the client profile is more economically *vulnerable (see graph 15).*

The difficulties faced by individuals dealing with negative shocks are more serious when their income levels are low for prolonged periods. An extreme case of dysfunctionality in this dimension is that of the so-called poverty traps** that affect households in permanent deprivation, with incomes below the minimum thresholds that are

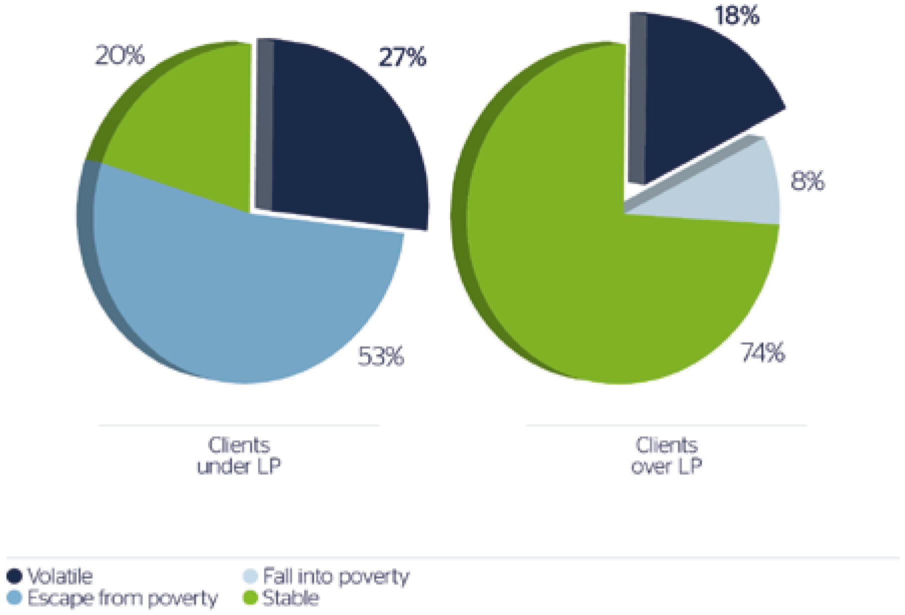
15. Net income volatility relative to the poverty line (PL)

Change in clients' economic vulnerability segment, based on their net income relative to the poverty line. *Poor* and *vulnerable* people are frequently exposed to changes in their economic situation, throughout their lives, which causes them to go back and forth across the poverty line on more than one occasion.



Source: Bancamía, Financiera Confianza, Banco Adopem, Emprende, Microserfin. BBVAMF calculations.

16. Net income volatility relative to the poverty line - Clients under and over the poverty line (LP)



Source: Bancamía, Financiera Confianza, Banco Adopem, Emprende, Microserfin. BBVAMF calculations.

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15 & 16. Data on clients served between 2011 and 12.31.2017 who have had at least five disbursements. The classification by *vulnerability* considers their situation at the first loan. • Volatile: client who crosses the poverty line at least twice, in either direction. • Escape from poverty: client who escapes poverty permanently. • Fall into poverty: client enters poverty in one cycle and does not escape it again. • Stable: client who remains *poor or non-poor* throughout the five disbursement cycles. **17.** For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at each credit cycle.

more precarious. Their likelihood of escaping poverty permanently is lower, so the Foundation centers its efforts on promoting productive activities that increase this probability.

Shocks, or the risk of suffering them, can exacerbate the absence of prolonged mobility because households with lower assets are structurally more exposed to negative effects, especially the poorest.

27% of clients under the poverty line get over it and then fall back to lower income levels (i.e. crossing the poverty line twice, one in each direction) and 20% remain in their segment (*poor* or *extremely poor).*

As clients' net incomes grow, the likelihood that they will relapse into poverty recedes. 74% of *non-poor* clients stay above the poverty line during the five credit cycles studied. However, 8% will fall into poverty and 18% will do so on a temporary basis and escape it again. This shows that income levels are as important as stability over time and permanence. More stable incomes have a direct impact on what decisions are made and are strongly correlated with better performance over time.

2. What our clients experience: investment choices grounded in liquidity and flexibility

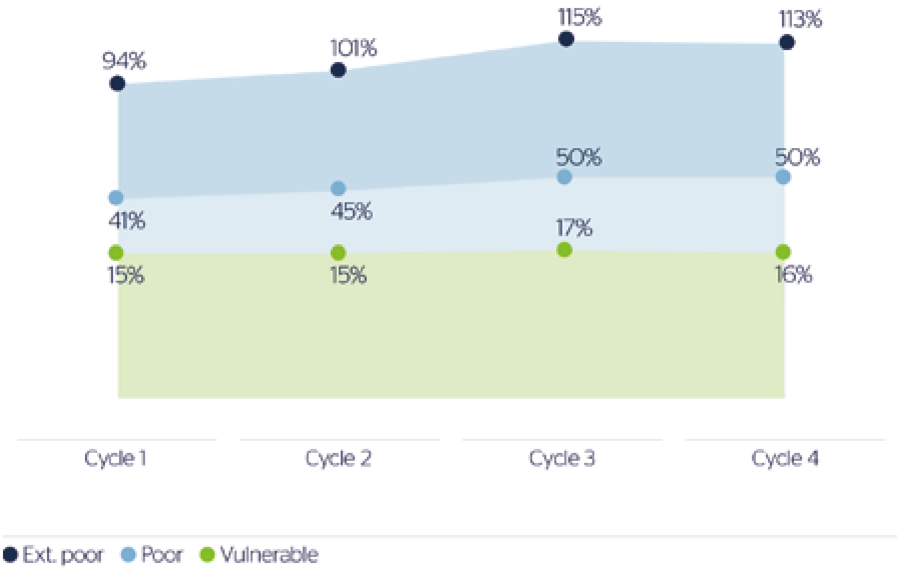
There is a high correlation between the degree of economic *vulnerability* and entrepreneurs' rates of net income growth: growth rates are higher in the case of lower incomes. For example, it is easier to raise a monthly net income of USD 35, equivalent to a basic basket of foodstuffs in Colombia (extreme rural poverty line) than one of USD 105, three times the basic food basket.

This relationship is visible in the growth rates of clients in the BBVAMF Group since 2011, where growth in the *extremely poor* segment is 98% on average, yearly, whereas among *vulnerable* clients it is 16%. Likewise, there are differences by activity sector, with the biggest variations in the case of the *extremely poor*. Along the same lines, the variation in the *p.c.* monthly net income is greater within client segments with very low incomes, where they double in each credit cycle (*extremely poor*).

The intrinsic nature of the entrepreneurs targeted by the BBVAMF Group's institutions means that their transactions occur in the in short-cycle activities they predominately favor; they choose sectors such as Retail trade. This sector enables clients intuitively to manage higher, risk-adjusted margins, so they concentrate here. Their preferences are for a low initial investment with low technical requirements (so for example, small-scale retail, buying in bulk and selling on).

Households with fewer resources, as they generate income, have to take decisions about investment, consumption and saving that will be affected by the need to ensure a basic level of consumption. As a result, there is a vicious circle of poverty leading the more vulnerable entrepreneurs to look for productive activities requiring low investments with fast returns, but these are

17. **Relative net income growth rates**



Source: Bancamía, Financiera Confianza, Banco Adopem, Emprende, Microserfin. BBVAMF calculations.

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*The average seniority of clients who have had five credit cycles with a Group institution is three years and five months (excluding Fondo Esperanza). **The extensive reading material on poverty traps has tackled many of the channels which may play a part in perpetuating it; to mention a few, they include: bad health, which reduces productivity and stunts the capacity to manage or generate skills; access to poorer quality schools; people returning to complete their education, who are few and far between and take a long time to do so; the lack of infrastructure and of human capital which might otherwise attract regional investment; etc. (*Poverty reduction and growth: Virtuous and vicious circles*; World Bank 2006).

2. What our clients experience: investment choices grounded in liquidity and flexibility

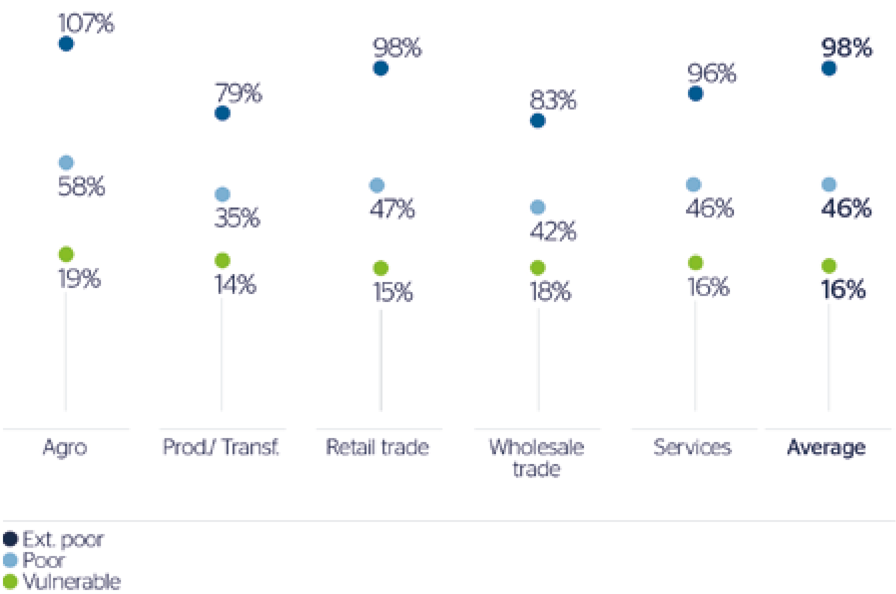
lower. The risk of failing in the activity is partially offset by greater rotation and diversification of activities.

For example, of the entrepreneurs served who work in Agriculture, nearly 50% raise livestock, which enables them to have cashflow flexibility in the short term (e.g. through the sale of chickens) compared to a medium-term investment (e.g. purchase of fertilizers or improved seeds that drive crop productivity and increase expected earnings).

The high mobility and need to obtain high returns in the short term means that these entrepreneurs cannot allow themselves a learning curve which would subsequently revert in higher productivity in the medium and long term.

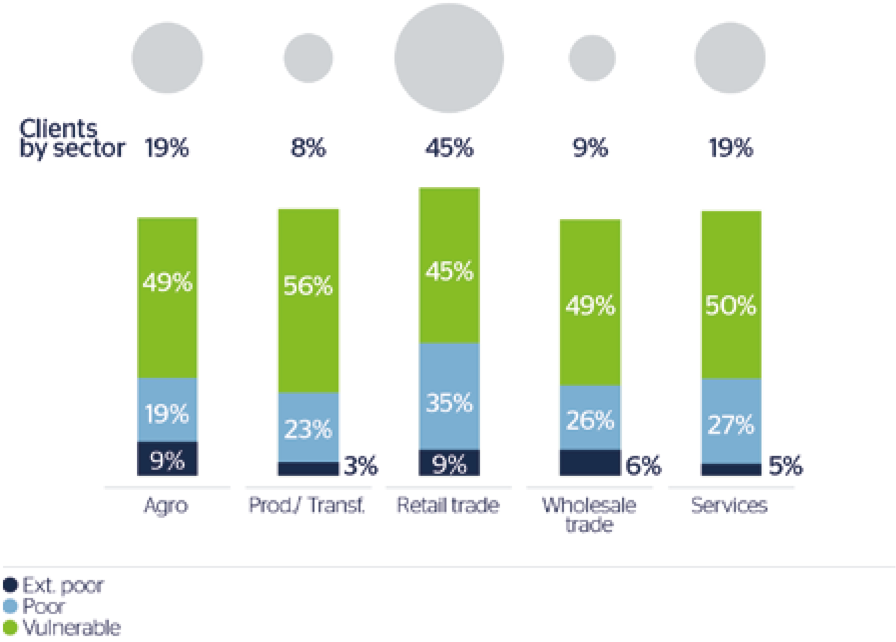
In Peru, for example, the poorest clients change their activity frequently: they move from selling food (Services) to carrying out tasks related to sewing carnival costumes (Production/transformation) and even stop asking their financial institution for loans if the opportunity arises – on a temporary basis – to have a paid job. This also partially explains their lack of enthusiasm for saving.

18. Growth rates by sector and vulnerability



Source: Bancamía, Financiera Confianza, Banco Adopem, Emprende, Microserfin. BBVAMF calculations.

19. Clients by sector and vulnerability



Source: Bancamía, Financiera Confianza, Banco Adopem, Emprende, Microserfin. BBVAMF calculations.

18 & 19. For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at each credit cycle. 19 shows the number of clients participating in each segment.

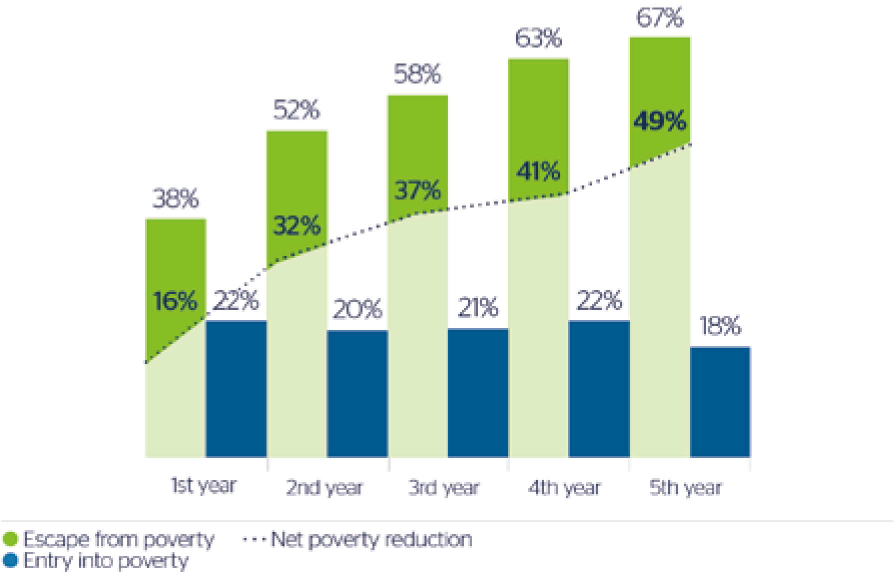
3. Poor and non-poor entrepreneurs' economic performance

Entrepreneurs' performance is not linear, so they move in and out of the *poverty* category. In the case of clients with BBVAMF Group institutions, on average 13% of the *non-poor* fall into *poverty* every year, whereas between 38% and 67% escape it, a proportion which grows the longer they remain clients (*see graph 20*).

We can conclude that the likelihood of our clients entering poverty remains stable, whereas their possibilities of overcoming it increase in correlation with the time they spend as clients. Their chances of beating poverty increase as they access formal financial products and services for sustained periods of time.

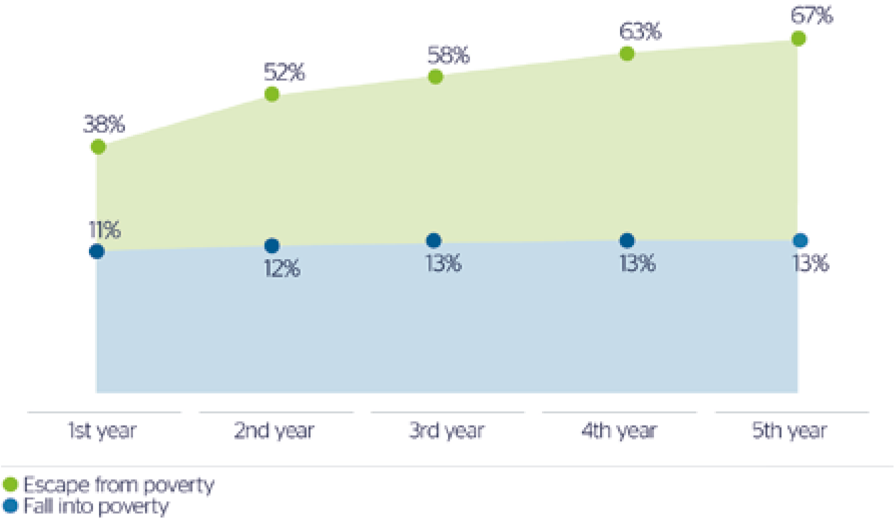
As a net effect, the segment of clients classified as *poor* or *extremely poor* diminishes over time; on average this reduction is 32% after two years with Group institutions (*see graph 20*).

20. **Variation in the poverty segment**



Source: BBVAMF Group institutions. BBVAMF calculations.

21. **Clients who enter and escape from poverty**



Source: BBVAMF Group institutions. BBVAMF calculations.

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20. Clients current at some point in 2017 whose data was updated in the final 12 months of their relationship with the institution. 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 outset, who have climbed above the poverty line, as a percentage of all those in poverty 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. **21.** Clients current at some point in 2017 whose data was updated in the final 12 months of their relationship with the institution. 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 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.

3. Poor and non-poor entrepreneurs' economic performance

BBVAMF has analyzed the performance of two client segments in particular: clients who escape poverty, on whom a multivariate study was conducted; and it has also started to analyze clients who fall into poverty.

3. 1. Clients who escape poverty

BBVAMF has analyzed the socio-economic variable dataset in terms of business and services (the products and services provided, the conditions in which clients are served) that have the biggest impact on entrepreneurs in poverty who successfully escape from it*. The purpose of the analysis was to isolate the characteristics leading to greater poverty levels, since the more precarious the situation at the outset, the more difficult it will be to overcome poverty and find the factors that determine or facilitate better performance.

There are two main determinants of the progress made by entrepreneurs in poverty:

- Their environment (urban/rural). The probability of escaping poverty is greater in rural environments than urban ones, whatever the income level at the outset. This performance is partly accounted for by a lower cost of living that generates higher surpluses, as well as by less competition in their activity; this probably makes for more stability in their productive activities. In particular, rural clients in Retail trade, Services and, to a lesser degree, Agriculture, are those with the best performance.

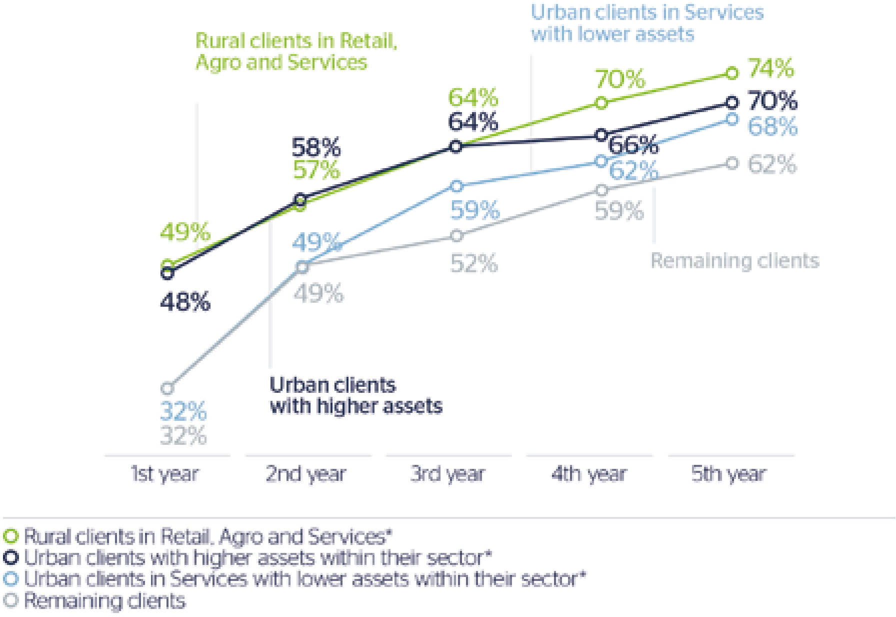
- Asset level at the outset. Initial assets have a positive correlation with the poverty escape rate, especially in urban environments. A bigger asset "cushion" implies greater capacity to absorb shocks or adverse scenarios, as well as the likelihood of generating new productive investments.

The entrepreneurial profile more likely to overcome poverty is the rural client involved in Retail trade, Services or, although less so, Agriculture. 57% of these clients overcome poverty in two years, accounting for 26% of total clients leaving it in this period. Urban clients achieve a similar performance, provided that their assets, relative to average assets for each sector, are high. Urban clients in Services and with low asset levels at the outset achieve lower, but still significant success (49% after two years) of escaping poverty (*see graph 22 and 23*).

3. 2. Possible causes for entering poverty

The main factors explaining why micro-

22. **Rate of escape from poverty, by segment**



Source: BBVAMF Group institutions. BBVAMF calculations.

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22 & 23. Clients current at some point in 2017 who have updated their data during the last 12 months. Clients who have been written off are excluded from the "escaping poverty" category. Proportion of those escaping poverty over those who were *poor* at the outset. Index by segments. In the case of Fondo Esperanza, which has a different method of collecting information, a multivariate analysis could not be conducted. Fondo Esperanza clients are included in "remaining clients". **24.** Clients who have been current at some point in 2017 and have updated their data in their last 12 months with the institution. Shows those clients who at the outset were classified as *non-poor* and who are currently under the PL.

* Without Fondo Esperanza. ** See *Notes on Methodology* for more details.

entrepreneurs cross over the poverty threshold are: variability of their business income levels and of their capacity to absorb instability in their incomes (savings level, flexibility in expenditure, alternative income streams, etc.).

A drop in income is, on the whole, the result of variables that are directly related to business management. We have noted that:

- In 45% of cases, a reduction in sales is the main reason for *non-poor* clients entering poverty.

- In 14% of cases, it is due to an increase in direct expenses.

- 11% of the time it is because of an increase in indirect expenses (hire of premises, employee wages, etc.) and in 7% of cases due to an increase in all expenses generally.

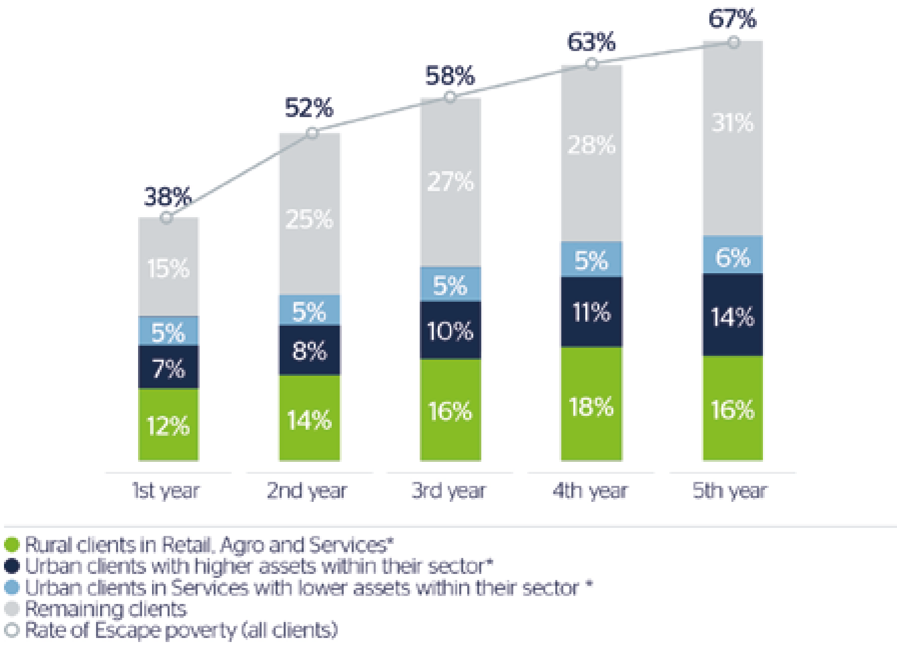
- In 22% of cases, income drops because there is an increase in the size of the household; clearly, this is not directly related to business management.

This highlights the importance of supporting clients by increasing their financial and business management training, to assess or anticipate the potential risks they may face. Most cases of a drop in sales occur in the Retail trade sector (20% of cases), an activity that concentrates a high percentage of the *poorest* clients, with the lowest educational attainment.

The factors accounting for the drop in income of clients entering poverty are multiple and inter-related. It is critically important to understand which are the most frequent and highly correlated; and of these, in which our institutions can play a helpful part.

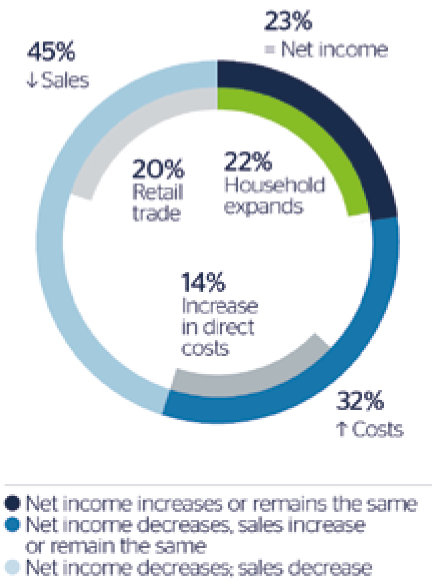
> *The entrepreneurial profile most likely to overcome poverty is the rural client involved in Retail trade, Services or Agriculture*

23. **Escaping from poverty, by client segments**



Source: BBVAMF Group institutions. BBVAMF calculations.

24. **Clients falling into poverty**



Source: BBVAMF Group institutions. BBVAMF calculations.

4. Investment in productive assets

On average, clients' net incomes perform positively over the time they have a relationship with our institutions. In fact, entrepreneurs who have renewed a loan in 2017 have posted above-average performance (*see graph 25*).

The analysis is based on client outcomes depending on their business surpluses. Nevertheless, their capital balance and structure (debt/equity) needs to be studied. This may enable the institution to locate the client at a particular point of their cycle, in order to adapt its products to differing performance and needs, so as to support their development.

Client development can be explained by taking into account the change in asset levels according to the following variables*:

- Owned assets at the outset: income-generating asset *stock* is classified as: human capital (education and work experience), financial capital, physical assets (machinery, land, etc.); and social capital (relationships with others and involvement in organizations).

- Consumption: refers to the cost of living and the cost of using owned assets (for example, the real estate property).

- Asset returns: the performance of these assets** refers to net business surplus and other household income (other wages, rental income from property, etc.).

Higher asset levels imply a greater likelihood of achieving income as a result of better outcomes. However, increased assets over time depend on consumption decisions. This consumption in turn determines the change in the level of surpluses that are transformed into future assets, by decisions to reinvest or save.

The ability to manage businesses (which depends on factors such as education) defines the productive activity's cost level, while personal and lifestyle decisions determine consumption levels. The capacity to keep costs below asset profitability is what generates the surpluses that, once reinvested, increase the level of productive assets, which turns into a virtuous circle of higher future profitability, bringing with it progress and development.

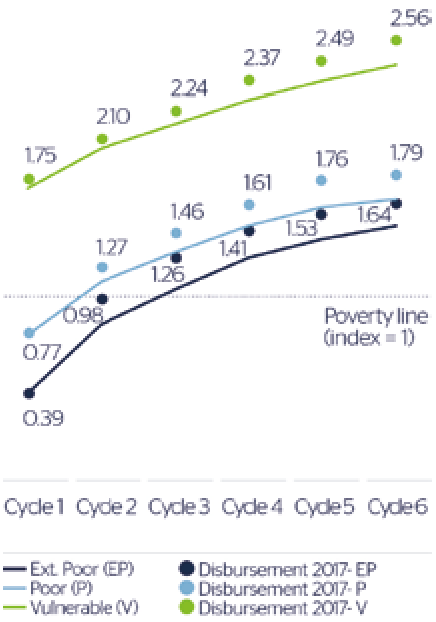
Therefore, if we combine these factors we see how clients with higher levels of wealth at the outset, or who use fewer assets, succeed in growing above the poverty line.

Poverty and deprived environments can lead to taking short-term, risk-averse decisions, that tend towards old habits of behavior at the expense of other alternatives that could be more efficient and/or effective. So it is that, among lower income levels, clients may spend a greater proportion on consumption.

The degree of vulnerability conditions entrepreneurs' productive choices. This applies because the profitability of their assets hardly covers the cost of living, but also when they are deciding whether to invest, or re-invest, their productive surpluses efficiently.

There is great potential for making further progress in understanding how performance changes, if we connect the analysis of change in asset profitability with other economic and social client variables. A greater understanding implies a supply of services and products that is better adapted to client needs, thus speeding up their progress.

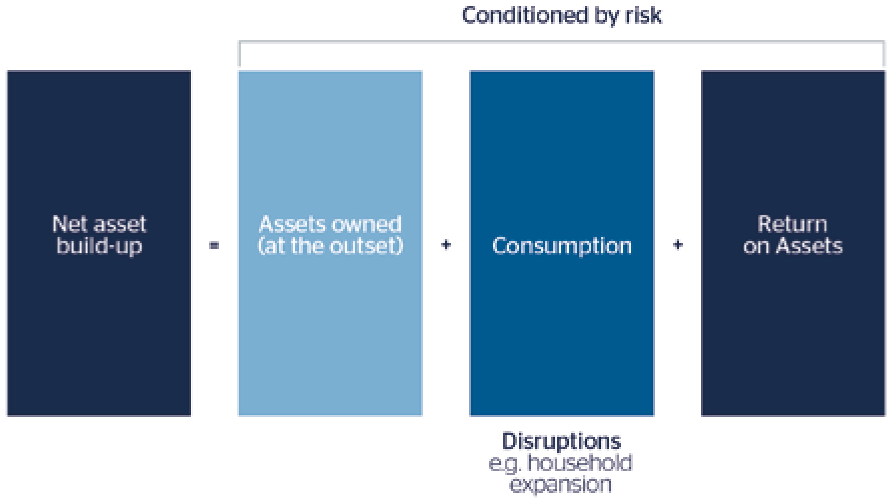
25. **Net income relative to the PL**



Source: Bancamía, Financiera Confianza, Banco Adopem, Emprende, Microserfin. BBVAMF calculations.

There is great potential for making further progress in understanding how the performance of vulnerable entrepreneurs develops, by better adapting the product offering to their needs

26. Maximizing household net assets

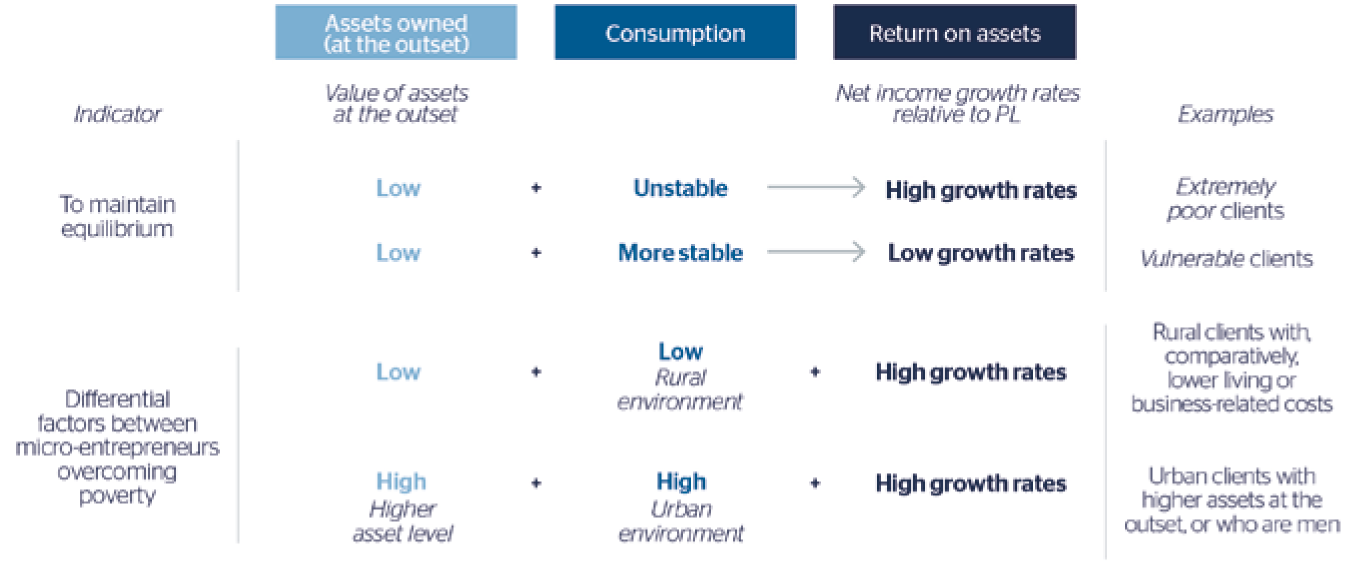


Source: BBVAMF.

25. Clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* during the first credit and shows the change in net income at each credit cycle, relative to each country's official poverty line (rural/urban and year of disbursement). The data points show clients who renewed a loan in 2017. The line is the historic trend. Relative *p.c.* net income takes the value of one when it is equal to the poverty line. Data from the individual credit portfolios of all institutions.

*López-Calva & Rodríguez-Castelán, 2016. It seems reasonable to believe that clients seek to maximize their welfare by adjusting their consumption over time, in accordance with the yields from the assets they possess and the investments they have made or are planning. A simple conceptual framework is proposed for accumulating productive assets as a dynamic process that influences household welfare. **Yields from assets can be wages, in the case of human capital; interest rates in the case of financial assets; and rent payments, in the case of real estate rentals. Given that the subject is *vulnerable* clients, these yields are not being referenced.

27. Maximizing household net assets, scenarios



	Assets owned (at the outset)		Consumption		Return on assets	
Indicator	*Value of assets at the outset*				*Net income growth rates relative to PL*	*Examples*
To maintain equilibrium	Low	+	**Unstable**	→	**High growth rates**	*Extremely poor clients*
	Low	+	**More stable**	→	**Low growth rates**	*Vulnerable clients*
Differential factors between micro-entrepreneurs overcoming poverty	Low	+	**Low** *Rural environment*	+	**High growth rates**	Rural clients with, comparatively, lower living or business-related costs
	High *Higher asset level*	+	**High** *Urban environment*	+	**High growth rates**	Urban clients with higher assets at the outset, or who are men

Source: BBVAMF.

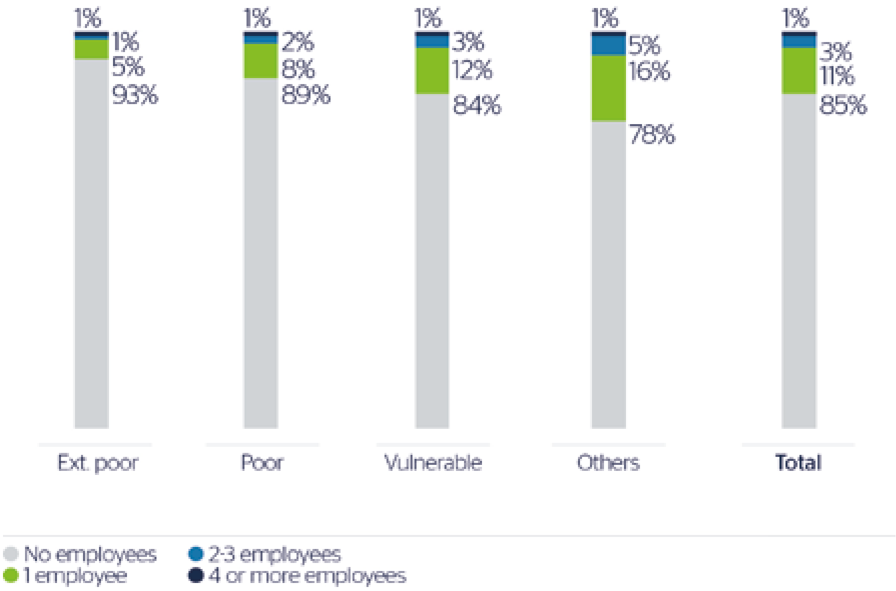
5. Other non-financial impacts

It is important to carry on compiling information about the social impact – irrespective of how their micro-enterprises perform – of clients' standards of living, such as their home, their education and job creation.

In 2017, 85% of clients did not have an employee (*vs.* 86% in December 2016), and the less *vulnerable* a client is, the more likely they are to create employment. Micro-entrepreneurs in the BBVAMF Group provide jobs to 190,112* people. On average, 7.3% of clients create at least one new job position after two years of working with their microfinance institution.

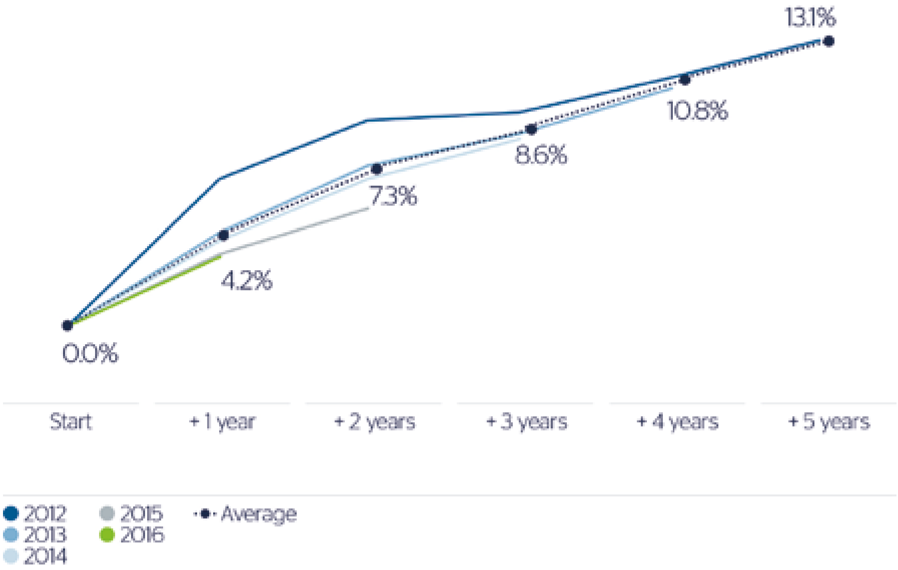
Another very relevant piece of data is that, after an average of two years with their institution, 7.9% of clients have made improvements to their home and 3.3% their educational status, which has a positive impact on future generations.

28. **Micro-enterprise employee breakdown**



Source: BBVAMF Group institutions, except Bancamia. BBVAMF calculations.

29. **Job-creating businesses** (proportion, by cohort)



Source: BBVAMF Group institutions, except Bancamia and Financiera Confianza. BBVAMF calculations.

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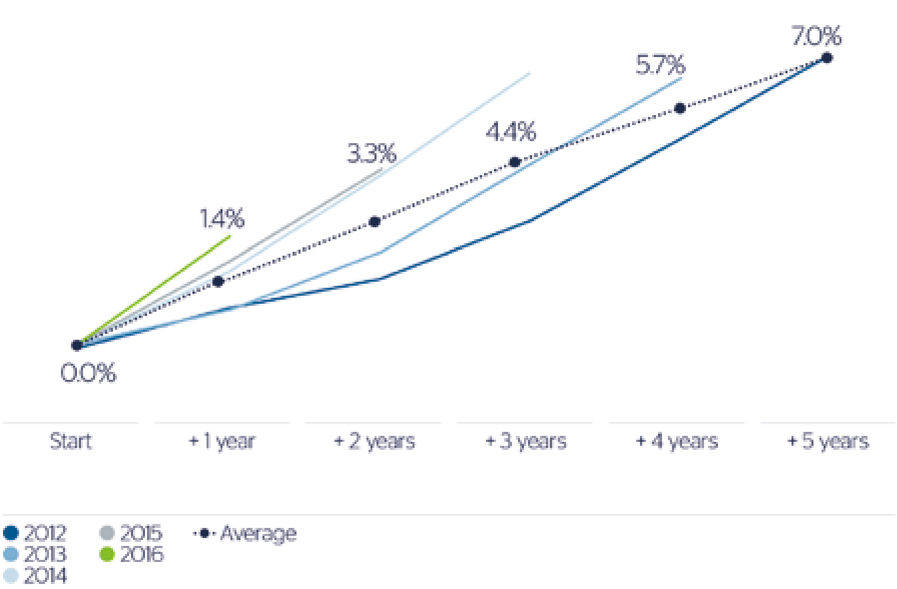
28. Number of employees working for clients current at 12.31.2017. **29.** Increase in the number of employees compared to the outset, for clients current at 12.31.2017 in each cohort. Averages from cohorts 2012-2017 are shown.

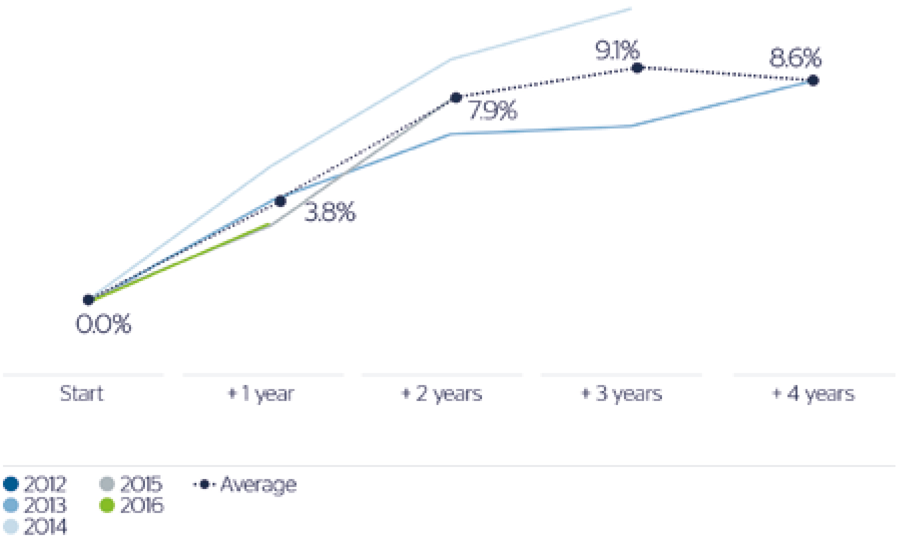
* Data provided by 77% of all clients at 12.31.2017. Extrapolating to the remaining clients, 274,876 jobs would be created in all.

30. **Improvement in educational level** (by cohort)



Source: Available information for Bancamía, Banco Adopem and Fondo Esperanza BBVAMF calculations.

31. **Improvement in housing** (by cohort)



Source: BBVAMF Group institutions, except Bancamía, Financiera Confianza and Emprende. BBVAMF calculations.

By investing in their business, clients improve both their standard of living and that of their household, while also generating jobs in their communities

30. Proportion of clients current as of 12.31.2017 from each cohort, who have improved their educational attainment. Averages from cohorts 2012-2017 are shown. **31.** Proportion of clients current as of 12.31.2017 from each cohort who have improved their living arrangements (moved into their own home), upgraded their home (e.g. bathroom, fuel used) or increased the number of rooms. Averages from cohorts 2013-2017 are shown.

Client relationships, serving different needs

Access to financial products and services is a key factor supporting our clients in the progress they make: it helps them to smooth their consumption, raise their investment and achieve coverage

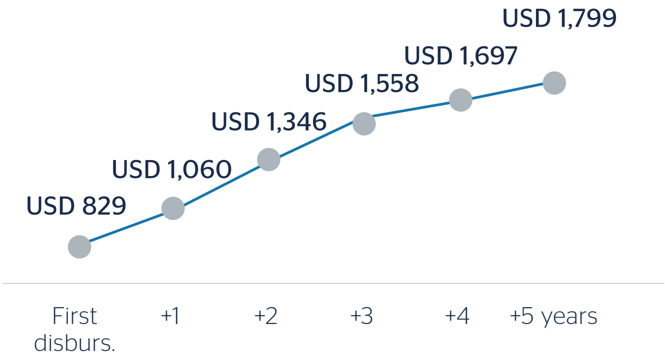
Credit

+900K credit clients

Credit is our key instrument for supporting vulnerable clients. Disbursements grow progressively over time, at an annual average of 17%, reaching USD 1,799 after five years

58% of clients take out a second loan

Average credit, change



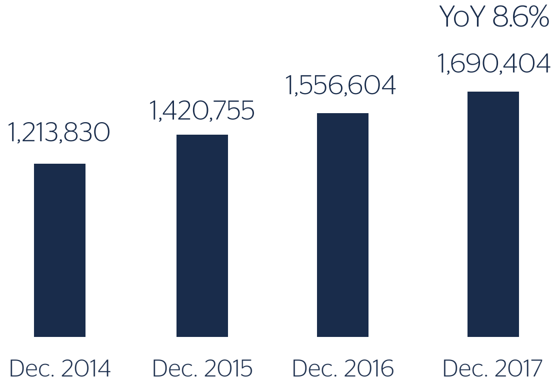
Clients served between 2012 and 2017.

Savings

Savings clients grew by 8% YoY

Just as important as financing productive activities is facilitating formal savings mechanisms, that enable entrepreneurs to get the resources to cover their needs or unexpected events

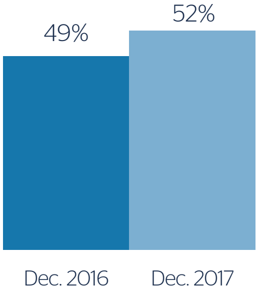
Total savings clients



Insurance

52% of credit clients also have voluntary insurance

They mainly take out life insurance, damages (protecting their micro-enterprise's assets, among others) and personal accident.



Proportion of credit clients with a voluntary insurance policy

Nº of credit clients current in each year, holding voluntary insurance products.

The BBVAMF Group offers its clients a diverse range of credit, savings and insurance products, transfers and remittances, which are made available to them using a multi-channel strategy to ensure they are taken up. This enables them to manage their household cash flows effectively and to improve their economic position to handle possible ups and downs in their income stream and to invest in their business growth. These products are supported by financial literacy actions that break down cultural barriers to them.

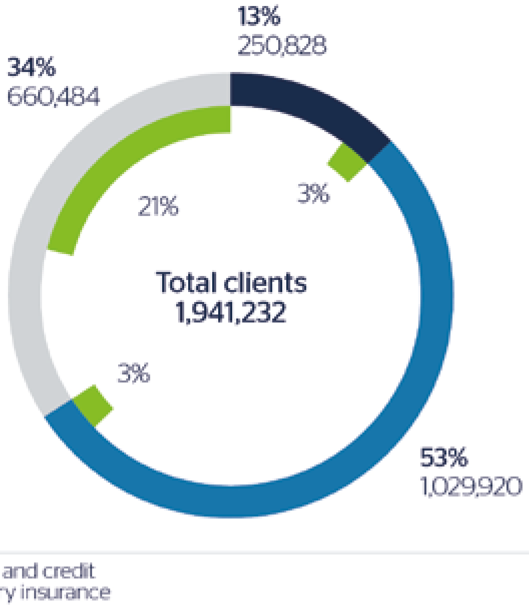
Because of their characteristics, low-income entrepreneurs have different needs in terms of managing their income and occasions on which to make new investments. They are also less time-sensitive, with the attendant cost implications. Their priority is liquidity and flexibility in their cash flows. That is why retaining them in the medium term, encouraging saving and taking out insurance all present a challenge.

For low-income entrepreneurs, credit has up to now been the most popular product (because it is more available, because of greater need, or an emergency). 47% of all Group clients have credit products and 34% also have a savings product. In other words, 72% of clients with a credit product also have a savings product. Furthermore, credit clients have expressed interest in diversifying their product portfolios and 52% have an insurance policy.

Access to a variety of financial products means that resources can be used more responsibly in the medium term. The effort and abilities of micro-entrepreneurs creates the basic favorable conditions for wealth creation and to overcome the different negative events or financial shocks they might undergo.

Access to financial products enables resources to be consumed optimally; this generates the right conditions for overcoming financial shocks in the future

32. **Client linkage by product type**



Source: BBVAMF Group institutions. BBVAMF calculations.

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32. Clients current as of 12.31.2017. Banco Adopem, Fondo Esperanza and Emprende offer voluntary insurance. Bancamía, Financiera Confianza and Banco Adopem, also offer savings products.

1. Relationship with our credit clients

1. 1. Stability in the credit relationship

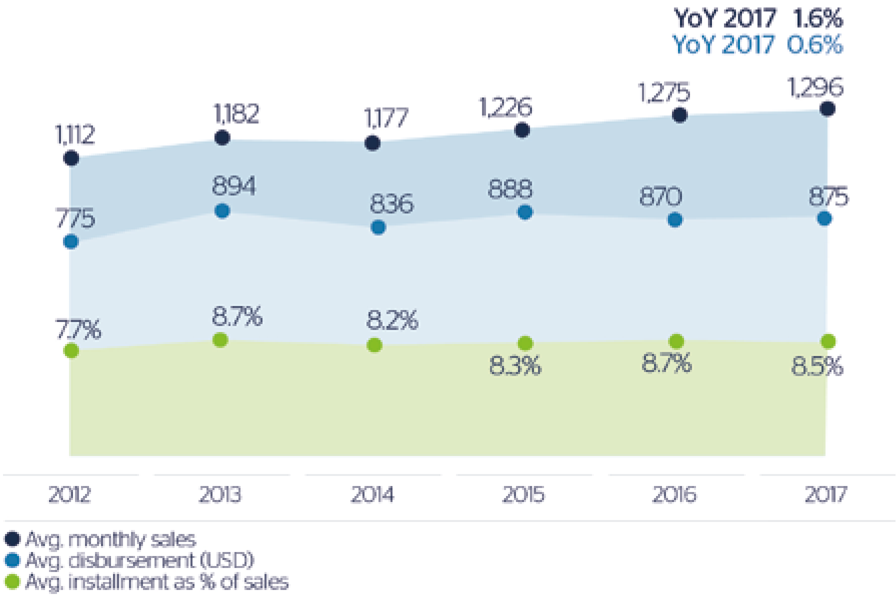
The credit profile of new clients served in 2017 was stable, with average disbursements of USD 875 which meant that the installment represented a weight on (monthly) sales of 8.5%. This disbursement rises by 17% every year, reaching an average of USD 1,799 after five years.

1. 2. Improving client retention

On average, 65% of credit clients stay linked to BBVAMF Group institutions after a year and 42% after two. Furthermore, 58% of clients take out a second loan (up from 53% in 2016), reflecting a significant improvement from 2016 (*see graph 35*).

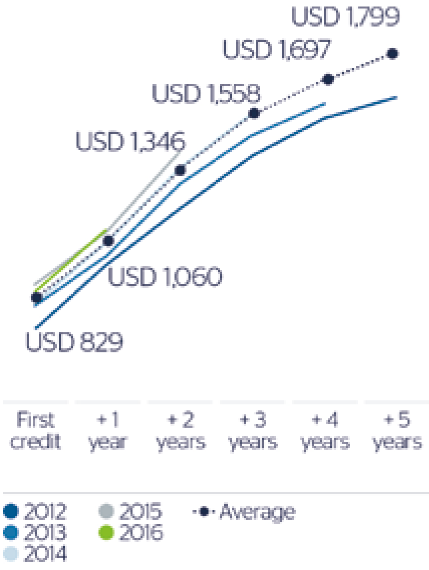
Preliminary studies indicate that there are two clearly defined profiles: first, the more *vulnerable* clients who, given the instability of their enterprises, chop and change between formal and informal sources of financing or else prefer to pay off their financial obligations temporarily; second, the more sophisticated (less *vulnerable*) client, who seeks other financial options or perhaps no longer needs a loan.

33. **Sales, disbursement** (USD) **and installment as % of sales, new clients**



Source: BBVAMF Group institutions. BBVAMF calculations.

34. **Average disbursement per transaction** (by cohort)



Source: BBVAMF Group institutions. BBVAMF calculations.

35. **Credit client retention and recurrence**

Retention	
Start	100%
+ 1 year	65%
+ 2 years	42%
+ 3 years	29%
+ 4 years	23%
+ 5 years	18%

Recurrence		**Distance (days)**
Cycle 1	100%	-
Cycle 2	58%	367
Cycle 3	37%	369
Cycle 4	25%	339
Cycle 5	17%	304
Cycle 6 or +	12%	259

Source: BBVAMF Group institutions. BBVAMF calculations.

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33. 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. **34.** Variation 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. **35.** 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. Data from the individual credit portfolios of all institutions. Percentage of clients that, after an initial loan, accesses another. Distance between cycles is the number of days between disbursements for one loan and disbursements for the next (the first has not necessarily been canceled).

Clients take out credit products intermittently and for different purposes (to invest in machinery, land or commercial premises, to resolve temporary cash flow problems, maintain their existing level of operations, for inventory), and these vary according to the scale, maturity and management ability of each entrepreneur. These characteristics, together with unstable production cycles and market changes, have an influence on the likelihood of escaping poverty and the frequency with which the client comes back for another loan.

> *The provision of reliable savings mechanisms is just as important as financing productive activities, since these enable entrepreneurs to take another step forward in managing their financial resources*

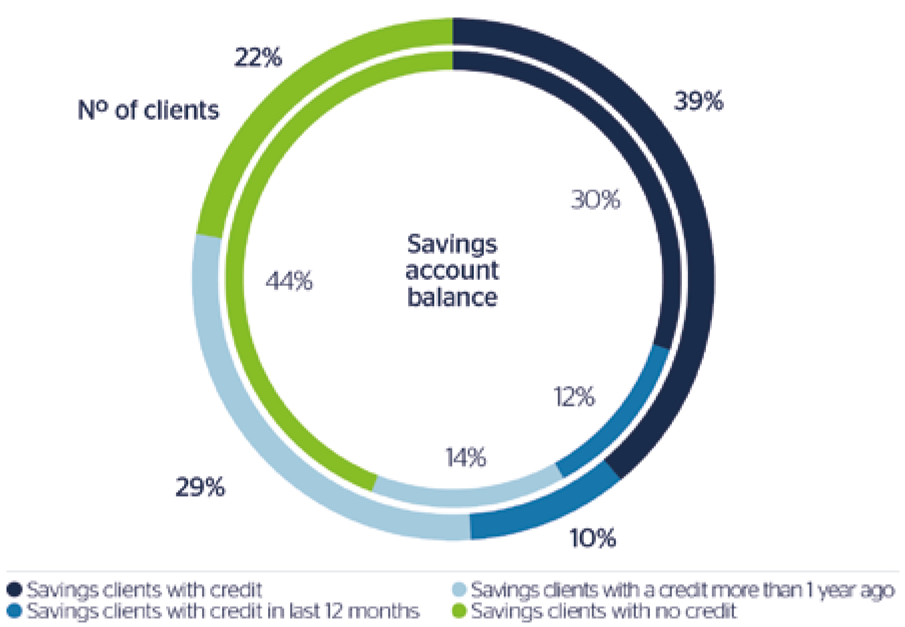
2. Relationship with our savings clients

We view the provision of reliable savings mechanisms as being just as important as financing productive activities, since these enable entrepreneurs to take another step forward in managing their financial resources and coping with surprises. The growth in the demand for these products is an indication that clients want and need to access them although their continued use (number of transactions made) continues to be challenging. This is partly because of the difficulty and the cost of accessing these products (transport, travel distance from a branch office, etc.). To meet this need, an efficient channel strategy is key (banking subagents, correspondent banking, mobile banking, etc.).

In 2017, 203,656 new savings clients were served. The total number of BBVAMF Group's savings clients is growing at an annual rate of 8.6% and balances are growing at 10% annually (*see graph 37*). Of all savings clients, 22% have never had a loan with a Group institution, and they account for 44% of the savings balances. 78% of savings clients have, or have had in the past, credit products.

When we analyze the progress of savings clients by gender we see that although their average balances are lower, women are slightly more prone to saving. If we compare the average balance of clients with an outstanding credit, we see how women's average savings balances are 40% of their monthly net incomes, whereas men's are 38%. In terms of how much they use the product, here the differences are small: 12% of women and 13% of men with savings products can be classified as "transactional" (as in, they have three movements in their account or more in the last quarter). Furthermore, these trans-

36. **Linkage of savings clients**



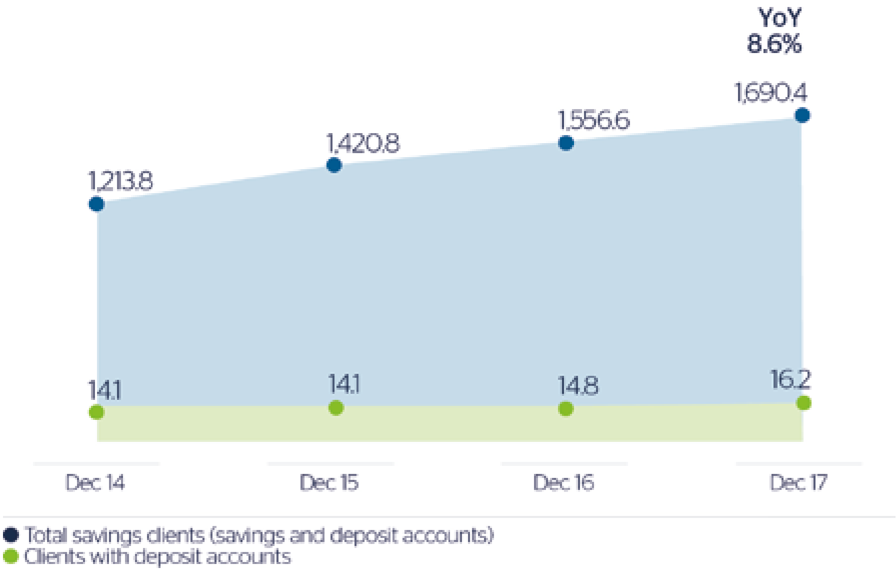
Source: Bancamía, Financiera Confianza, Banco Adopem. BBVAMF calculations.

2. Relationship with our savings clients

actional clients accumulate the biggest savings balances, 48% of all savings balances in the case of women and 49% in that of men.

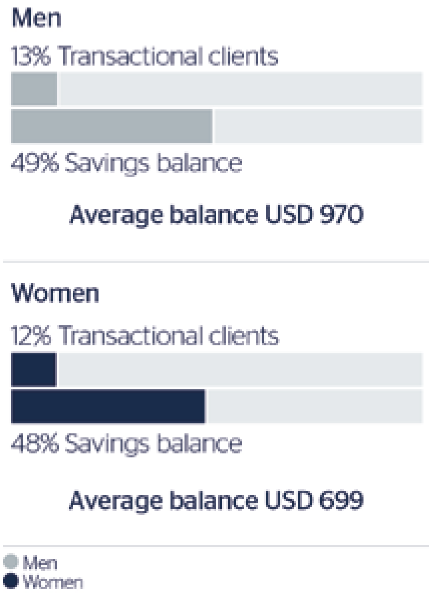
The accumulation of equity ought to grow over a client's life cycle, with smaller savings in youth, and larger ones in old age, although we note how clients in *vulnerability* between 30 and 60 years old have lower average savings than young people. One explanation for this is that it is at this time of life when households have bigger expenses, with a higher number of dependants, whether children or the elderly, so savings fall.

37. **Clients with savings and deposit accounts ('000)**



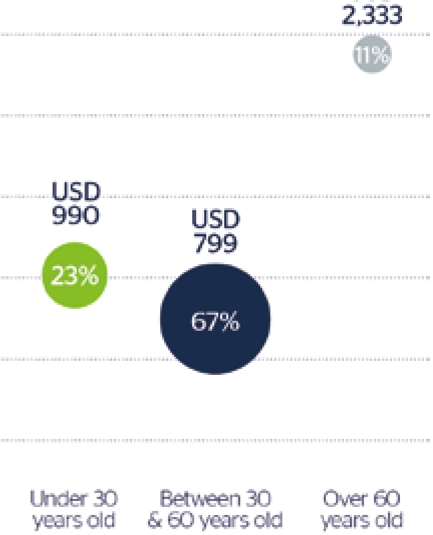
Source: Bancamía, Financiera Confianza, Banco Adopem. BBVAMF calculations.

38. **Transaction frequency, by gender**



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

39. **Savings balance by client type**



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

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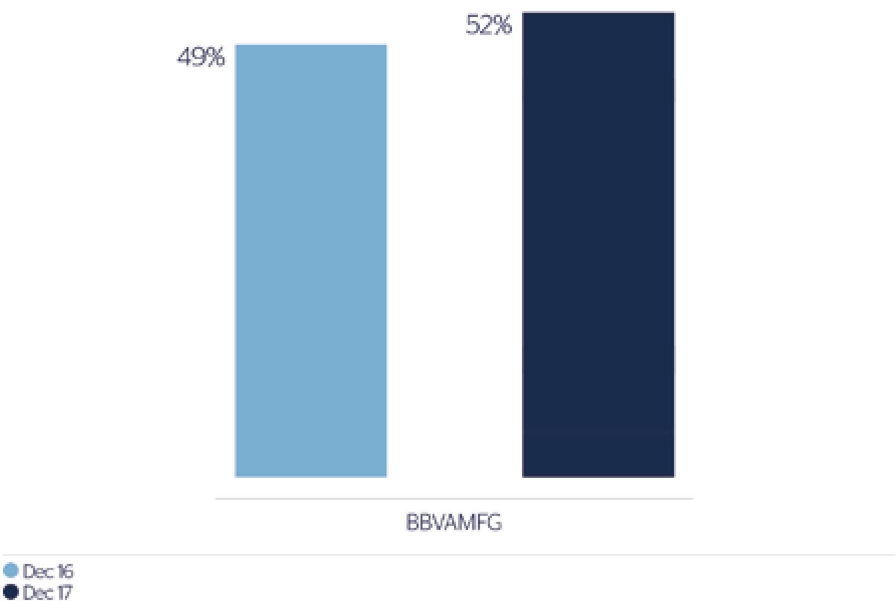
36. Clients and liability balances at 12.31.2017. Excludes institutional clients' savings. **37.** Clients with savings products (savings accounts & deposits) on each date. Excludes institutional clients' savings. **38 & 39.** Clients who conducted at least three transactions, excl. administrative movements (interest, fees, etc.) in their savings balances in the 3 months prior to 12.31.2017. Excludes institutional clients' savings.

3. Relationship with our microinsurance clients

BBVAMF Group works to make available to entrepreneurs microinsurance products that provide the cover they need. In aggregate, 52% of credit clients have a voluntary insurance policy, which represents a 3% rise over last year. This is to a large extent thanks to the efforts made by the Group's institutions to adapt their offering to their clients and provide training and technical assistance.

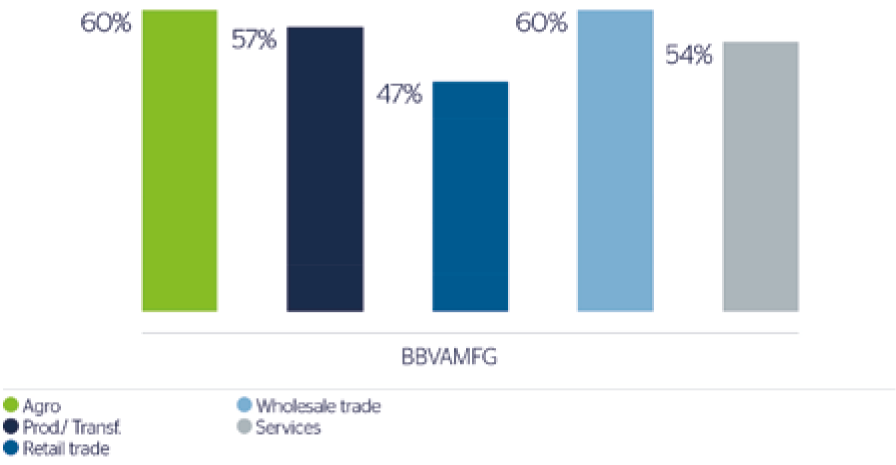
The realities of this product vary greatly between entities, because of the specific conditions in the value offering and the variations in client needs served by each market. These differences notwithstanding, there is a generalized greater product penetration in segments suffering from higher instability (for example in the Agro sector).

40. **Clients with voluntary insurance**



Source: BBVAMF Group institutions. Microserfin does not offer voluntary insurance. BBVAMF calculations.

41. **Clients with voluntary insurance, by sector**



Source: BBVAMF Group institutions. Microserfin does not offer voluntary insurance. BBVAMF calculations.

40 & 41. Credit clients with voluntary insurance current at 12.31.2016 and 12.31.2017. Includes segmentation by activity sector at 12.31.2017.

Using Productive Finance, BBVAMF Group supports micro-entrepreneurs as they generate long-term sustainable revenues

1. Committed to our clients

The multidimensional nature of poverty entails a more comprehensive analysis of the client's reality. The Foundation is committed to safeguarding financial access to vulnerable entrepreneurs and therefore it focusses on signing up new clients who meet the vulnerability criteria.

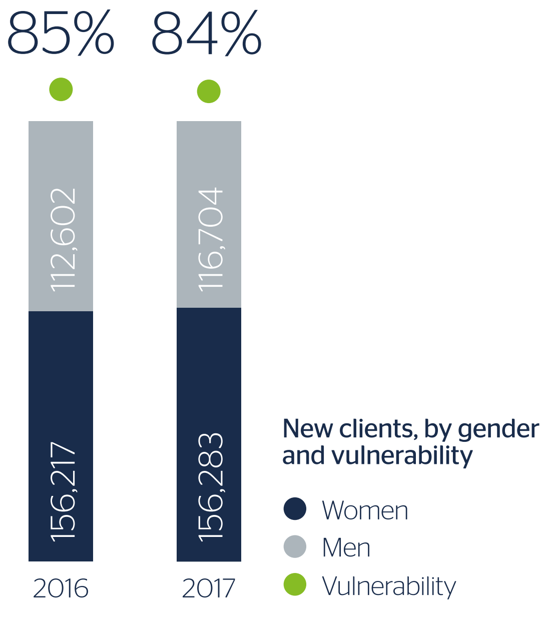
8 out of every 10
clients are economically vulnerable

In other words, they are in poverty or are highly likely to fall into it (their businesses generate net incomes that are less than three times the poverty line)

USD 189
is the average net income, per household member, that their businesses generate monthly

6 out of every 10
clients are women

They face the greatest difficulties in accessing the labor market



New clients, by gender and vulnerability

2. Observing their progress

The degree of vulnerability conditions entrepreneurs' productive choices. As such, learning about the client's progress enables us to better address their needs and engage more effectively.

1. With a business loan they can invest in their business or cover their cash flow needs

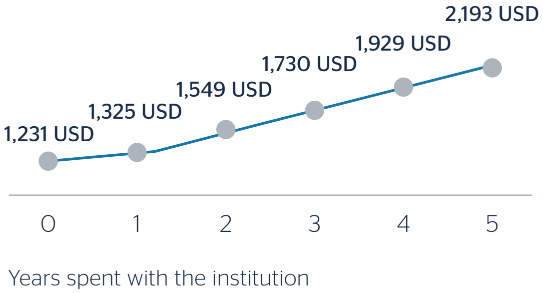
2. This, in turn, increases their business sales

3. They then have higher net incomes for each member of the household

4. Generating impact on their household, their standard of living and their community

Average monthly sales over time

↑ **16%**
Annual growth of sales



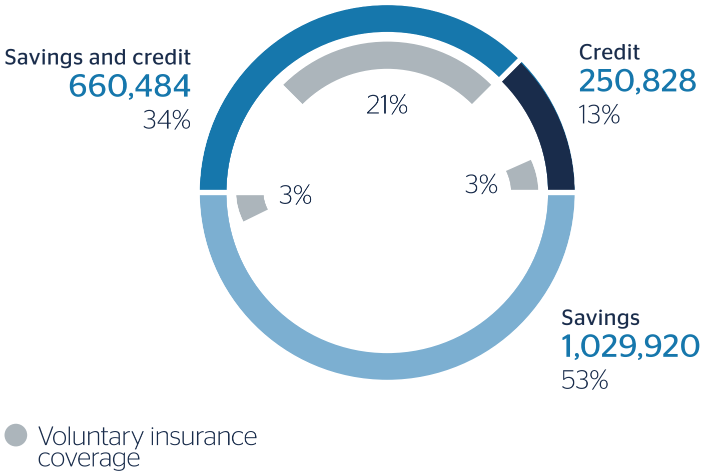
57%
of clients have raised their net income in 2017

32% of clients, poor at the outset, escaped poverty after two years with the BBVAMF Group

3. The relationship with our clients

Access to a range of financial products and services enables them to use resources more rationally in the medium term.

Clients by product type



Total clients:
1,941,232

USD 875
the average value of a new client's first loan in 2017

Conclusion

During 2017, the BBVAMF Group has worked with 1,941,232 low-income entrepreneurs, of whom 272,987 are new entrepreneurs who are taking out a loan, while 203,656 are new savings clients. The Group's institutions are using this extensive level of client data to learn from their experiences, studying their realities and the dynamics of their business, in order to ensure that they prosper over time.

Aligned with its mission, BBVA Microfinance Foundation has a permanent commitment to serve vulnerable entrepreneurs. The multidimensional nature of their vulnerability means that microfinance must be framed within each country's economic, social and geographic context.

In economic terms, 84% of new clients served in 2017 are in economic *vulnerability*, that is, their net incomes are less than three times the poverty line figure in their country and they run a high risk of falling below it.

We also see other types of vulnerability: social, such as the level of education (36% of new clients have only primary education), gender (57% of new entrepreneurs are women) and surroundings (31% are in rural environments). These factors stand out because, after a multivariate analysis, these are the attributes that are shared by all those who are financially *poorest*. In particular, women need to be supported, because they experience higher barriers to entry; and rural entrepreneurs, because of asymmetries in access to infrastructure and resources.

It is also important to bear in mind the region where the entrepreneur is working. A look at national pockets of poverty corroborates that the Group is present in the most vulnerable areas of the countries in which it operates, which is where a greater positive impact is generated on people's development. The local context makes it possible to involve all the players (public and private) as an opportunity to channel efforts to achieve the greatest possible impact on clients' lives.

In terms of the road traveled by entrepreneurs, we continue to see positive change in their businesses over time: over the last five years we see monthly sales are growing by 16% a year, their monthly net incomes increase by 17% a year, and their assets expand by 24% annually. Thus, in 2017, of all clients rolling over their loans:

- 57% or 216,312 entrepreneurs improved their net income relative to the poverty line.

- 14% or 53,308 entrepreneurs overcame poverty.

- 65% of credit clients remained with their institutions at the end of the first year.

For low-income entrepreneurs, income levels are as important as stability over time and permanence. Poor and vulnerable people are frequently exposed over the course of their lives to variations in their economic status which may result in their entering and coming out of poverty more than once. In the case of Group clients with at least five disbursements, 50% remain in their economic *vulnerability* segment (they are stable), while 22% cross the poverty line at least twice (they are volatile).

Precarity and instability are intrinsic to their situation: they are more exposed to shocks and to the idiosyncrasies of the markets where they operate. This reality leads them to:

- Look for liquidity and, in consequence, high incomes in the short term, instead of trying to build up an equity base in the medium term.

- Concentrate in flexible sectors, with low barriers to entry and exit, low technical requirements or specialization needed.

- Own assets that help them reduce risk, causing them to choose small, diversified assets.

Lack of income distorts entrepreneurs' productive choices and skews them towards old habits at the expense of others that could be more efficient and/or effective.

Therefore, client performance can be explained by the following variables: level of assets at the outset; consumption, that varies between the rural and urban environments; and business returns.

When we combine these factors, we see how the entrepreneur profile most likely to overcome poverty is the rural client working in Retail trade, Services or Agriculture. In total, 57% of them overcome poverty in two years, compared to 49% of all other clients. Clients who start off with higher assets or have lower consumption (in the rural environment) succeed in growing above the poverty line.

There is great potential in continuing to further understand the performance of vulnerable entrepreneurs. The performance in client net income shows positive net growth over the period in which they retain their linkage with our institutions. These analyses enable us to plot clients at a particular stage of their development cycle so that we can adapt the financial offering to different patterns of behavior and needs, so as to support their progress.

The advantages of sharing this knowhow and the experience the BBVAMF Group has in measuring impact will improve the service it can offer these entrepreneurs and to all the stakeholders who want to contribute to poverty reduction.

Macroeconomic analysis

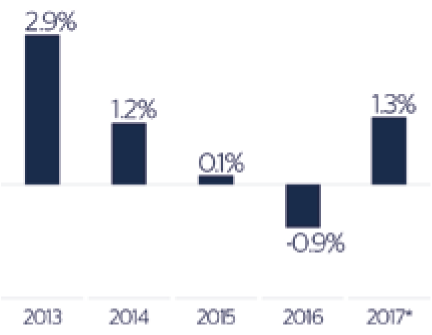
Latin America

Latin America has returned to the path of growth and controlled inflation after two years of turbulence which increased unemployment, poverty and labor informality. This put the brakes on progress being made in bringing down inequality and has made the Sustainable Development Goals that mark the agenda for the next 12 years more of a challenge.

Latin America: the challenge of inclusive growth

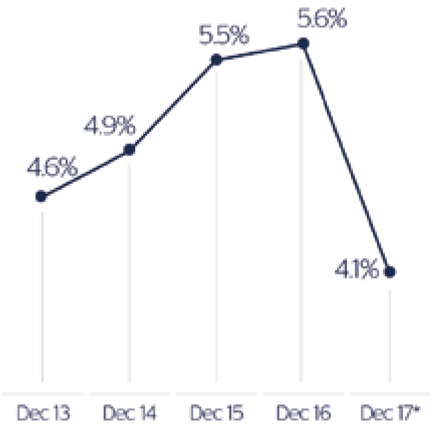
Moderate recovery

GDP growth (% var)



Source: IMF. *BBVAMF Research estimates.

Inflation (% var)



Source: IMF. *BBVAMF Research estimates.

After recording lower-than-expected growth in recent years, economic activity in Latin America is heading for a gradual recovery in the 2017-2019 period. In 2017 growth in Latin America and the Caribbean posted at 1.3%, as Brazil and Argentina came out of recession and the price rise in basic products benefited those countries exporting agricultural goods and energy[1].

If Latin America bottomed out in 2016, essentially because of performance in South America's biggest economies, the footprint[2] of the BBVA Microfinance Foundation (BBVAMF) did so in 2017. Even though it was the Foundation's worst year, average growth in the region doubled, to 2.4%[3]. The coastal El Niño phenomenon and the delay in Peru's public-sector investment brought growth down by 36 b.p. (base points), mining strikes in Chile shaved off 17 b.p., while, in Colombia, lower consumer and producer confidence, as well as the delay in public investment, reduced it by 45 b.p. Taken together, these factors shrank growth in our footprint area by one percentage point.

Domestic demand recovered in 2017 thanks to improved consumption, but investment remained sluggish and exports fell. Inflation is moderating in many countries, as the pass-through effects of previous exchange rate depreciations taper off and some currencies appreciate. This moderation is also a consequence of persistent spare economic capacity, together with the price of foodstuffs and energy, which remain low. Lower inflation enabled monetary policy to be more flexible to support growth levels in a number of countries. BBVAMF's footprint shows lower structural inflation levels than the average for the region.

> *Climate factors and delays in infrastructure investment were the main factors putting a brake on Latin America's recovery*

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1. Conducted at the end of November 2017. BBVAMF Research estimates. **2.** Includes: Colombia, Chile, Panama, Peru and Dominican Republic. **3.** Weighted by GDP volumes.

Progress in Sustainable Development Goals

The *2030 Sustainable Development Agenda* came into force in 2016 with 17 goals, the SDGs, which are universally applicable, mobilizing efforts to put an end to all forms of poverty, fight inequality and tackle climate change, while also ensuring that nobody is left behind. Over the next 13 years, Latin America faces the challenge of building a sustainable and inclusive development path[4].

These SDGs can be divided into three main groups: economic, social and resilience to climate change, but they are not isolated compartments, but rather inter-connected.

The regional jobless rate shot up abruptly, from 6.6% in 2015 to 8.7% in 2017. Around 140 million people work in the informal sector

Economic SDGs

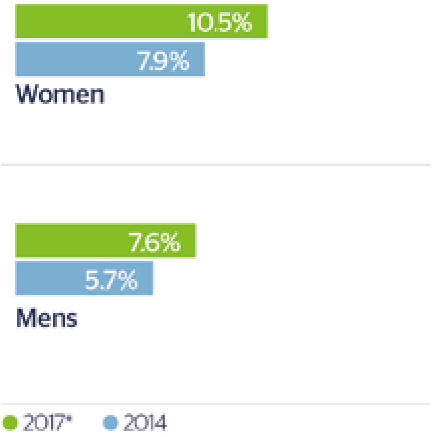
In the economic arena, two SDGs stand out: promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG 8) and reducing inequality within and among countries (SDG 10).

SDG 8 highlights the promotion of development policies that support productive activities, the creation of formal employment, entrepreneurial spirit, creativity and innovation, encouraging the bringing of jobs into the formal economy, supporting the growth of micro, small and medium-sized enterprises, and access to financial services.

In 2017 Latin America recorded growth of 0.3% in per capita GDP, after years of falls, which left average annual per capita GDP growth between 2015 and 2017 at a negative rate of -0.9%, compared to a positive annual rate of 2% between 2000 and 2014. The less developed countries in the region recorded lower rates of growth on average, with the added impediment of recurring natural disasters suffered by a good number of them, increasing their vulnerability and distancing them from the target set in the Sustainable Development Goals of 7% per capita real GDP growth.

Labor productivity, measured as the annual rate of real GDP growth per worker, recovered slightly in 2017, expanding by 0.2%, but posting a fall overall between 2015 and 2017 of 0.3%. Between 2000 and 2014, average productivity growth was 0.8%, whereas the worldwide average was 2.3%. This paltry productivity gain has had a negative impact on living standards and real wages.

Unemployment by gender (% of the active population)



Source: ILO. *BBVAMF Research estimates.

The regional jobless rate shot up abruptly, from 6.6% in 2015 to 8.7% in 2017, an increase of 2.1%. The impact of this contraction in the demand for labor was very high, causing the regional occupation rate to fall by nearly 1%.

Women are more likely to be unemployed, particularly in segments that use less human capital. In 2017, the female unemployment rate in the region was around 10.5%, compared to 7.6% for men. The situation is more acute among young people in the active population, where male unemployment is 16.7%, against 24% for women. Worldwide, this gap is narrower, with young men's unemployment rate posting at 12.7%, compared to that of women at 13.7%.

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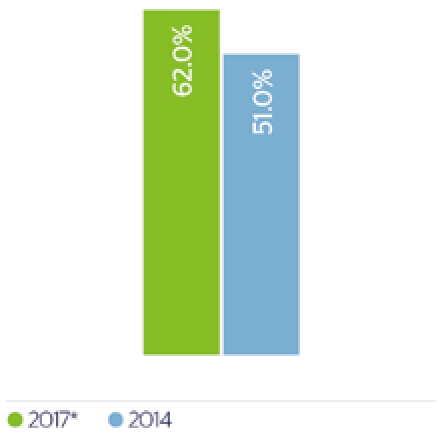
4. All estimates in the section by BBVAMF Research.

Financial inclusion (% of adults)



Source: World Bank. *BBVAMF Research estimates.

In creating decent jobs and getting jobs into the formal economy in Latin America and the Caribbean, there is a great deal of work to do. There are currently 13 million minors who are obliged to work (8%), while nearly half of all employment, about 140 million workers, is in the informal economy. 28% of employment, about 80 million people, is self-employed, while 5%, around 14 million, are unpaid family workers, mostly women.

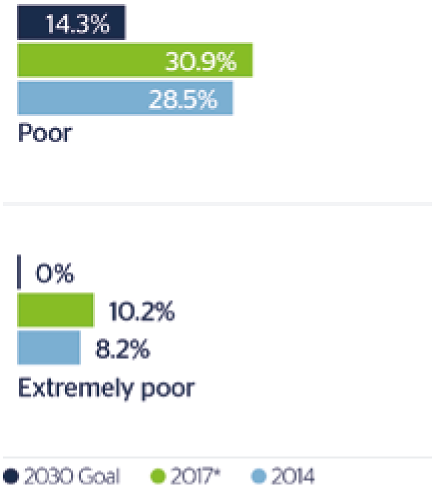
Innovation has a significant effect on company productivity, although to different degrees, depending on the characteristics of each firm. Other factors that, taken together, influence productivity, are an enterprise's age, its access to credit and financing, and its participation in international markets and global value chains.

Access to financial services allows people and companies to manage changes in their incomes, cope with cash flow fluctuations, accumulate assets and make productive investments. In this area, Latin America has made progress in recent years, widening access to finance, such that whereas 39% of adults were financially included in 2011, by 2014 the figure had risen to 51%. According to our estimates, between 2014 and 2017, 40 million adults accessed the financial system for the first time, increasing the penetration of people with an account in a financial institution from 51% to 62%, in many cases as a result of conditional cash transfer programs that are being rolled out in the region.

Despite the improvement in the financial inclusion metrics, in specific areas progress is uneven across the region, such as in reducing transaction costs faced by the *poor* when they interact with the financial sector, encouraging formal lending, access to savings plans, insurance policies and other financial products.

Social SDGs

Poverty (% total population)



Source: Cepal. *BBVAMF Research estimates, UN.

The economic dimension is strongly linked to the social sphere, with a clear link in the case of four SDGs in particular: ending poverty in all its forms (SDG 1), achieving gender equality and empowering all women (SDG 5); and ending hunger, achieving food security and improved nutrition (SDG 2). All this in the context of SDG 16: promoting peaceful and inclusive societies for sustainable development.

In relation to *poverty*, the goal by 2030 is to eradicate *extreme poverty* for everyone, as well as to reduce by at least half the proportion of men, women and children of all ages who live in *poverty* in all its dimensions, according to each country's definition.

Progress in Sustainable Development Goals

The slowdown experienced in the region over the last four years is distancing it from this goal. The improvements made in *extreme poverty* and in general have been reversed. Between 2014 and 2017, *poverty* rose by 2.4%, that is, 22 million people have fallen into *poverty,* which has risen from 28.5% of the population (168 million people) in 2014, to 30.9% in 2017 (190 million people). *Extreme poverty* rose from 8.2% in 2014 (48 million people) to 10.2% in 2017 (63 million people); this means that 15 million people have succumbed to *extreme poverty*.

Nevertheless, despite the recent reversal, performance between 2002 and 2017 has been encouraging, since *poverty* has dropped by 15%, in line with the reduction projected by the SDGs for the region to 2030.

According to the most recent information, income inequality[5], which takes values between 0 and 1, ranging from absolute equality (0) to maximum inequality (1), came to 0.467 in Latin America as a whole, still one of the highest in the world. Income inequality fell between 2002 and 2016, although the rate has slowed down in recent years, falling from 0.538 in 2002 to 0.467 in 2016, but with major differences between countries.

From 2002 to 2016, the annual rise in income in the lowest deciles was greater than in the highest earning deciles, both in countries where the inequality indicators improved and in those where the changes were less significant.

In some countries in the region, remittances from migrant workers have brought household incomes up. Greater financial inclusion has allowed transfer costs to fall, which has contributed to the greater impact of this channel on living standards.

Gender equality is one of the most intolerable backward factors. By 2030, progress must have been made in ensuring that all men and women, in particular the *poor* and *vulnerable*, have the same rights, in all areas of life. In Latin America, there is a feminization of poverty. The ratio of *poor* adult women to *poor* men has risen in recent years: the indicator[6] measuring the disparity in the rate of poverty between women and men was 107.1 in 2002, but 120.3 in 2017. This means that in 2017 the percentage of *poor* women was 20% higher than that of *poor* men; the situation in households suffering *extreme poverty* is similar, but even worse.

Around 40% of adult women do not have their own incomes, if non-contributory transfers from the state are excluded, whereas only 12% of men find themselves in this situation. One of every two women of working age has a job or is looking for one, ie. is economically active, compared to three of every four men. Women's situation is restricted because of informality, given that between 60% and 90% of women's entrepreneurial activity in the region is in the informal economy.

Looking at nutrition, although progress has been made in recent years, making Latin America and the Caribbean the only regions that achieved the hunger-reduction targets in the Millennium Development Goals (MDGs), lower economic growth and the upturn in poverty threaten to reverse these successes. The proportion of people with nutritional deficiencies in Latin America fell from 11.4% between 2000 and 2002, to around 5.5% in 2014-2016[7]. About 36 million people suffered from poor nutrition between 2014 and 2016, a huge drop, since between 2000 and 2002 there were 60 million people in this situation.

An estimated 6.2 million children under five were suffering chronic malnutrition in 2016. Over the region as a whole, the rate of malnutrition fell from 18% in 2000 to 11.6% in 2016.

> *Between 2014 and 2017, the penetration of people with an account in a financial institution increased from 51% to 62%. 40 million adults accessed the financial system for the first time*

Environmental SDGs

Other dimensions that look at improved living standards for the population are access to drinking water and sanitation, as well as universal access to affordable, reliable and sustainable energy. In Latin America, 34 million people still do not have access to drinking water and 46 million do not have basic sanitation in their home.

Universal access to affordable and sustainable energy has improved in the region. 97% of the population has electricity, up from 91% in 2000. However, 20 million people still live without this basic utility.

Access to fuels and low-pollution technologies for cooking rose to 86%, against 78% in 2000. Even so, more than 91 million people do not have access to fuels and low-pollution technologies for cooking and are exposed to low-quality air in their homes.

17% of final energy consumption comes from renewable sources, showing a modest increase since 2000, when it was 15%. Primary energy intensity improved, but at a rate insufficient to double the rate of energy efficiency improvements, as set out in the Sustainable Development Goals.

In Latin America around 80% of the population lives in urban areas, the highest proportion in the world. Approximately 26% live in slums. Around 45 million households suffer from overcrowding and lack basic utilities.

Building up resilience to climate change is key in order to achieve sustainable development that allows for prudent environmental management and better conditions for future generations. Given the current concentration and continued emissions of greenhouse gases, the warming of the oceans and melting of the icecaps will continue. The average sea level is forecast to rise, with major implications for many countries in the region, that will have a serious repercussion on agriculture, on food security, on fresh water supply, on public health, on standards of living and on ecosystems.

Even though Latin America and the Caribbean only generate 13% of the planet's greenhouse gases and the region's emissions, in per capita terms, are 3.1 metric tons of CO2 equivalent (lower than the world average of 4.9 metric tons), these emissions have risen by 70% compared to their 1990 levels.

The important institutional and technological changes being pushed through are an opportunity to put the brakes on planetary warming. These changes are intended to improve energy efficiency, reduce the carbon footprint in the production of goods and services through innovative and inclusive products and services, as well as to strengthen the resilience of communities to climate change.

The challenge facing Latin America is less stark than it is for other developing regions, but the gains already made must be reinforced, given the vulnerability it has shown in low periods of the economic cycle; efforts must be redoubled to create climate-smart interaction, which is the dimension most ignored in a region whose main production is commodities.

The improvements made in terms of poverty *have been reversed. Between 2014 and 2017, poverty rose by 2.4%, that is, 22 million more people have fallen into poverty*

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5. Measured using the Gini ratio. **6.** A value over 100 indicates that poverty affects women more than men; a value under 100 indicates the opposite. **7.** FAO data.

BBVAMF Group
Aggregate data

Data at December 31st, 2017	**COP /USD**
Exchange rate as of December 31, 2017	0.000334605

Activity synopsis	**BBVAMF Group**	**Bancamía**
Financial data		
Gross loan portfolio (USD)	1,140,889,147	403,048,633
Amount disbursed in 2017 (USD)	1,412,998,093	347,206,155
Number of disbursements in 2017	1,080,571	265,887
Average disbursement in 2017 (USD)	1,308	1,306
Deposits and others (USD)	556,786,335	171,558,299
Operating data		
Nº of employees	8,051	3,485
Nº of branch offices	514	200
People receiving financial education	426,907	202,220

Our clients	**BBVAMF Group**	**Bancamía**
Total clients	**1,941,232**	**913,977**
Number of credit clients	**911,312**	**330,718**
As a % of all BBVAMF Group credit clients	-	36.3%
Number of savings clients	**1,690,404**	**891,677**

Our credit clients

Total clients

	BBVAMF Group	**Bancamía**
Vulnerability of credit clients (% clients)		
Ext. poor	15%	9%
Poor	22%	24%
Vulnerable	47%	51%
% Vulnerability	**84%**	**84%**
Others	16%	16%
Rural	31%	45%
Women	**57%**	**51%**
Women's profile		
Poverty	45%	38%
Vulnerability	89%	88%
Primary education at best	34%	37%
Rural	25%	37%
Net monthly per capita net income (USD)	164	136
With primary education at best	36%	42%
Young (<30 years old)	34%	24%
Old (>60 years old)	6%	8%
Economic activity (% credit clients)		
Agriculture	18%	31%
Production / transformation	14%	18%
Retail trade	41%	30%
Wholesale trade	7%	4%
Services	19%	17%
Average monthly sales (USD)	**1,296**	**1,363**
Average assets (USD)	**7,222**	**6,414**

PEN/USD	DOP/USD	CLP /USD	CLP /USD	PAB/USD
0,.308994747	0.020692715	0.001625051	0.001625051	1

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
484,176,610	129,163,276	79,550,028	16,214,973	28,735,626
633,338,655	142,493,511	251,956,414	15,291,528	22,711,828
306,508	194,958	289,265	9,489	14,464
2,066	731	871	1,612	1,570
313,790,063	71,437,973	-	-	-
2,127	1,418	608	148	265
153	74	54	20	13
36,672	16,466	165,673	-	5,876

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
493,164	**389,436**	**117,331**	**9,796**	**17,528**
211,635	**224,304**	**117,331**	**9,796**	**17,528**
23.2%	24.6%	12.9%	1.1%	1.9%
423,002	**375,725**	**-**	**-**	**-**

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
7%	5%	54%	6%	7%
20%	25%	18%	14%	16%
48%	58%	24%	68%	49%
75%	**88%**	**96%**	**88%**	**72%**
25%	12%	4%	12%	28%
24%	46%	-	34%	44%
52%	**62%**	**75%**	**57%**	**42%**
36%	33%	78%	24%	28,7%
82%	90%	97%	92%	77,0%
15%	55%	31%	36%	18,7%
19%	42%	-	-	36,1%
201	161	153	322	281
14%	57%	31%	40%	23%
42%	44%	28%	23%	24%
5%	4%	6%	10%	5%
21%	4%	1%	14%	38%
10%	0%	30%	19%	22%
23%	76%	57%	49%	22%
18%	5%	-	3%	2%
28%	15%	13%	15%	18%
1,372	**1,264**	**973**	**2,154**	**1,586**
10,218	**5,250**	**11,800**	**7,312**	**14,467**

Total current clients at 31.12.2017	BBVAMF Group	Bancamía
Vulnerability level of credit clients (% clients)		
Ext. poor	9%	6%
Poor	19%	19%
Vulnerable	52%	54%
Vulnerability	**80%**	**79%**
Others	20%	21%
Rural	33%	44%
Primary education at best	43%	54%
Young (<30 years old)	19%	12%
Old (>60 years old)	11%	15%
Women	**60%**	**54%**
Women's profile		
Vulnerability	**84%**	**83%**
Primary education at best	42%	50%
Rural	27%	36%
Economic activity (% credit clients)		
Agriculture	17%	28%
Production / transformation	12%	16%
Retail trade	47%	34%
Wholesale trade	6%	4%
Services	18%	18%
Income,Installment & cost as % of sales		
Cost	59%	61%
Income	10%	8%
Installment	32%	31%
Financial Structure		
Under the poverty line		
Equity/Assets	85%	83%
Liabilities/Assets	15%	17%
Over the poverty line		
Equity/Assets	88%	80%
Liabilities/Assets	12%	20%
Nº of staff employed by clients	**190,112**	**75,143**
% clients reporting they have employees	77%	51%
Nº employees hired (extrapolated to 100% of clients)	**274,876**	**147,406**

Our savings clients	BBVAMF Group	Bancamía
Rural	31%	32%
Women	**56%**	**55%**
With primary education, at best	48%	54%
By age (saving clients)		
Young (<30 years old)	19%	14%
Old (>60 years old)	12%	15%
Year-on-year growth of savings clients (YoY 2017)	**8%**	**14%**

Credit clients' progress	BBVAMF Group	Bancamía
Cohort performance (2012-2017)		
Monthly sales growth (avg. CAGR)	16%	14%
Monthly net income growth (avg. CAGR)	17%	15%
Asset growth (avg. CAGR)	24%	25%
Current value of core financial data by gender (2012-2017 cohorts)		
M - Net monthly income (USD)	616	524
W- Net monthly income (USD)	535	447
M - Net monthly income growth (avg. CAGR)	14%	15%
W- Net monthly income growth (avg. CAGR)	21%	15%
M - Average assets (USD)	10,751	9,419
W - Average assets (USD)	7,579	7,455
M - Avg. Asset growth (avg. CAGR)	23%	25%
W - Avg. Asset growth (avg. CAGR)	26%	26%

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
5%	3%	43%	5%	6%
16%	21%	18%	11%	16%
49%	61%	32%	65%	50%
70%	**85%**	**93%**	**81%**	**72%**
30%	15%	7%	19%	28%
26%	41%	-	35%	40%
17%	50%	39%	50%	30%
26%	27%	15%	12%	12%
9%	7%	12%	21%	12%
50%	**67%**	**82%**	**57%**	**43%**
76%	**87%**	**95%**	**86%**	**74%**
17%	47%	40%	46%	25%
21%	36%	-	-	31%
22%	4.8%	0.3%	20%	33%
10%	0.2%	28.7%	19%	24%
29%	76%	62%	46%	23%
15%	4%	-	3%	2%
24%	15%	9%	13%	18%
58%	61%	44%	48%	56%
13%	5%	25%	7%	7%
28%	34%	31%	45%	38%
85%	86%	-	95%	92%
15%	14%	-	5%	8%
85%	88%	-	88%	90%
15%	12%	-	12%	10%
46,646	**46,929**	**12,121**	**2,801**	**6,472**
85%	92%	97%	92%	99%
54,607	**50,847**	**12,443**	**3,030**	**6,543**

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
20%	40%	-	-	-
47%	**66%**	**-**	**-**	**-**
13%	54%	-	-	-
23%	25%	-	-	-
9%	8%	-	-	-
7%	**0.1%**	**-**	**-**	**-**

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
14%	19%	42%	6%	7%
10%	19%	56%	13%	3%
28%	22%	-	5%	11%
687	551	1,160	1,187	633
532	501	795	979	592
9%	17%	45%	12%	2%
13%	19%	60%	14%	3%
15,423	6,454	-	11,160	20,724
13,533	5,010	-	6,046	11,109
26%	19%	-	6%	10%
31%	24%	-	4%	15%

(Cont.) Credit clients' progress

(Cont.) Credit clients' progress	BBVAMF Group	Bancamía
Net poverty reduction		
In first year	16%	19%
In second year	32%	20%
In third year	37%	21%
In fourth year	41%	14%
Volatility of relative p.c. net incomes		
Under the poverty line		
Volatile	27%	26%
Stable	20%	19%
Fall into poverty	53%	55%
Over the poverty line		
Volatile	18%	13%
Stable	74%	77%
Fall into poverty	8%	10%
Improve the quality of their home after two years	**8%**	**-**
Improve their educational level after two years	**3%**	**2%**
Create employment after two years	**7%**	**-**

Our relationships

New credit clients

	BBVAMF Group	Bancamía
Average disbursement of new credit clients (USD)	**875**	**987**
Avg. installment as % of sales of credit clients	**8%**	**7%**

Total clients

	BBVAMF Group	Bancamía
Average retention of credit clients		
After first year	65%	78%
After second year	42%	48%
After third year	29%	32%
Average recurrence of credit clients		
Cycle 2	58%	49%
Cycle 3	37%	26%
Cycle 4	25%	15%
Client linkage by product type		
Credit, savings and insurance	21%	29%
Credit and savings	13%	5%
Credit and insurance	3%	2%
Credit only	10%	1%

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
11%	20%	27%	-	-
23%	37%	44%	-	-
30%	51%	45%	-	-
39%	60%	-	-	-
23%	30%	-	-	16%
31%	15%	-	-	46%
46%	55%	-	-	38%
12%	46%	-	-	10%
82%	45%	-	-	78%
6%	10%	-	-	12%
11%	**6%**	**9%**	**-**	**-**
-	**5%**	**-**	**-**	**-**
-	**8%**	**4%**	**4%**	**5%**

Financiera Confianza	Banco Adopem	Fondo Esperanza	Emprende	Microserfin
1,294	**430**	**346**	**1,536**	**1,130**
10%	**4%**	**15%**	**8%**	**6%**
57%	74%	44%	64%	72%
32%	56%	30%	35%	43%
21%	42%	24%	22%	33%
57%	67%	74%	55%	51%
36%	45%	59%	35%	32%
24%	30%	50%	24%	21%
18%	17%	-	-	-
11%	37%	-	-	-
9%	0,1%	13%	49%	-
5%	4%	87%	51%	100%

Notes on methodology

Information limitations

Information limitations	Comments
Lack of information on certain variables. There are certain variables for which some client information is not available.	• Where there are data gaps, that client's data has not been used and thus not included in the samples analyzed.
Positive bias. Clients' tendency to present a more favorable view of their micro-enterprise's performance.	• BBVAMF methodology works on the premise that the data is gathered by an agent/loan officer with an informed understanding of the client's circumstances, who will therefore only report data he/she considers reasonable.
Process limitations. Information gathering is essentially from loan processes; normally data are collected when the client acquires a new product or renews their loan (information is stored in each MFI's core banking system).	• There are limitations in the data capture process (e.g. difficulty of valuing the business, input errors, incorrectly interpreting the variable, lack of time, etc). For group loans (solidarity and other groups, where client meetings do not always involve visiting the client's business) this limitation may be greater. As far as possible, when we have found the data to be less robust, it has not been presented.
Heterogeneous databases and different criteria. Indicators are based on the faithful interpretation of each microfinance institution's (MFI) criteria and those of its agents/officers. In a very few cases, there are variables with definitions or nuances at a local level or variables that are only collected in certain countries.	• Assets and sales indicators, in particular, are based on the in-depth understanding of each MFI's criteria and that of its agents. Criteria applied to value assets, liabilities, etc. may differ slightly between institutions. • Social variables (for example housing materials, educational level, capacity to access other household income, etc.) are not collated in all the institutions or are collated differently. BBVAMF has adapted to the information available from each institution and each country's requirements.

Methodological explanations of selected variables and indicators

Selected variables for consideration

Variable	Comments	
New credit clients	• New clients are defined as those who have not previously had a loan with any BBVAMF Group institution.	
Urban / rural environment	• The "environment" variable is defined by each institution as follows:	
	Bancamía	The client's business address (street, highway ...).
	Financiera Confianza	The client's address; in a given district all clients are classified as being in the same "environment", according to their classification by the National Statistics Institute (INEI-2007). If the rural proportion of the district is larger than 50%, according to the INEI, the entire district is rural.
	Banco Adopem	Assigned according to the % of rural/urban land in the province where the office is located, according to the National Statistics Institute. All clients in the branch office are classified according to the branch's classification.
	Fondo Esperanza	N/A (All clients are urban).
	Emprende Microfinanzas	There is no individual (by client) environment indicator. Clients are grouped by commune and the relevant authority (CASEN) assigns a rural percentage for each area.
	Microserfin	The client's address determines the environment, according to the parameters of the province and the district (MEF).
Data from financial statements (balance and P&L sheets)	• Indicators with information on sales, disbursements, net incomes, etc. for current clients, use the values the clients reports at 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 disbursements to have taken place in the previous 12 months (except in the case of Fondo Esperanza, see *Financial data performance and variation in the poverty segment*).	
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.	

Variable	Comments	
Economic sectors	• Based on the United Nations International Standard Industrial Classification of all economic activities (version 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.
	Commerce	Wholesale and retail trade (includes 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.

Selected indicators

Indicator	Comments
Dataset analyzed	• The indicators are for clients with a productive unit (micro-enterprise), thus excluding loans to employees. Some clients are waged, from other jobs, generally temporary, as well as their productive unit. This type of client has been kept in the analysis, provided the waged job is temporary. For savings clients indicators, larger enterprise owners (e.g. institutional clients) have been excluded.
Monthly *per capita* net income	• BBVAMF Group uses monthly *p.c.* net income to measure a client's available income. We take the surplus (business revenues, less direct and indirect business costs) divided by the number in the household. Other household income or costs are not included in the calculation for two main reasons: - The aim is to show the impact of the enterprise on the client and their families, rather than knowing the entire household income from other sources. - The information about the client is related to the loan and to the information pertinent for this transaction, so there is no control over the frequency or continuity of the other income unrelated to the micro-enterprise, nor is there documentary proof. • Monthly net income is divided by the number of household members to understand its impact on the household as a whole. The household size includes the number of people living in one place who share the food budget. It is a more stable figure than the number of dependants, which can vary over time.

Indicator	Comments
	• Net income is calculated from the situation immediately before granting the loan, so does not include the repayment installment, pending its approval. Where existing loans are still active (whether with a BBVAMFG institution or not), these should be included as an indirect business expense (classified as financial expenditure).
Per capita **net income relative to the poverty line**	• Measures the ratio that monthly *per capita* (*p.c.*) net income represents relative to the poverty line (the mirror image of this is the gap below the poverty line). Relative *p.c.* 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 as well as by different geographies or segments. • Relative p.c. net income takes a value of one when it is the same of the poverty line, values below one indicate that the client is poor and values greater than one that the client is not poor.
Economic vulnerability	• Categories were set by the monthly *per capita* net incomes generated by the micro-enterprise in order to determine clients' economic situation. These are compared with the poverty and extreme poverty lines, for each country, as defined by that country, every year. • Clients with monthly *p.c.* net income (for each household member) below the extreme poverty line will be classified as *extremely poor*. Those between the extreme poverty and poverty lines will be classified as *poor*. • A third category is made up of *vulnerable* clients, those with monthly *p.c.* net incomes less than three times the national poverty line. Businesses of these clients generate monthly *p.c.* incomes above the national poverty line, but still suffer from great economic uncertainty, understood as a high likelihood of falling back into poverty. • The reference to clients under the poverty line or in *poverty*, groups together the *extremely poor* and the *poor*. The term *"vulnerability"* covers all three segments: *extremely poor*, *poor* and *vulnerable*. • Remaining clients are classified as *others*.
Segments of clients with higher rates of poverty. Multivariate analysis of poverty	• A multivariate analysis was carried out on the historic database of the situation at the outset of clients served between 2011 and 06.30.17, and a model then created, with the aim of obtaining a set of variables to determine the socio-economic factors associated with poverty or extreme poverty. • After this, a set of new clients from 2017 was segmented and the consistency of the indicators studied. • We have ensured there is no correlation between the variables analyzed.

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1. http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27&Lg=1

Indicator

Comments

Vulnerability line
(three times the poverty line)

- The economically vulnerable segment has been created because clients above the poverty line are still likely to fall into poverty.

- Clients whose net incomes do not reach three times the poverty line are defined as *vulnerable* because they are more likely to fall into poverty. This is in line with other World Bank studies[2].

- 90-95% of *non-poor* clients (at the outset of their relationship with the institution) who fall into poverty during their time with it, have *p.c.* incomes relative to the poverty line of under 2.86 or 3.18, so the likelihood of falling into poverty once they are over this threshold is small.

- **Monthly *p.c.* net income relative to the poverty line.**
- **Breakdown by clients who fall into poverty.**

Relative net income is the *p.c.* income relative to the poverty line (depending on the year of disbursement, environment and country). Clients served between 2011 and 2017 who report their income. Source: BBVAMF Group Institutions. BBVAMF calculations.

Clients falling into poverty	25%	50%	75%	90%	92.5%	95%	97.5%	99%
Rural	1.18	1.44	1.83	2.86	3.24	3.89	5.46	8.05
Urban	1.11	1.32	1.63	2.51	2.78	3.18	3.96	5.10

The threshold of three times the poverty line represents a level of economic security such that the likelihood of clients with higher incomes falling into poverty is less than 10% (around 8% in the rural environment and 6% in urban environments).

The analysis on clients falling into poverty was completed and confirms the trend referred to above:

Considers *non-poor* (at the outset) clients served between 2011 and 2012, current at 12.31.2017. Source: BBVAMF Group Institutions. BBVAMF calculations.

	Clients who fall into poverty	Clients who fall temporarily into poverty	Total clients
Relative net income <= 3	2,605	4,483	24,177
	11%	19%	100%
Relative net income > 3	270	316	5,258
	5%	6%	100%

The likelihood of clients falling into poverty with p.c.net incomes over three times the poverty line is only 5% over the next five years.

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[2] *Economic Mobility and the Rise of the Latin American Middle Class*, World Bank 2013.

Indicator	Comments
Financial data performance and variation in the poverty segment	• Data from those clients who were current at some point in the previous 12 months, and who have made a disbursement in the previous 12 months, was taken to prepare performance indicators such as the progress made in terms of financial variables (sales and monthly income, assets) and the reduction in the poverty segment. Where information was updated after the disbursement, this information is used for the calculation. • Fondo Esperanza is an exception because of the nature of its processes, in which the client's economic information is only updated in the fifth cycle disbursement, with the result that the client sample is made up of clients who have had two disbursements, 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. • Clients who have been written off are excluded from the figures for those escaping poverty.
Segmentation of better performing clients. Multivariate analysis of the escape from poverty	• A multivariate analysis was conducted on the historic data base of clients served between 2011 and 06.30.17, and a model then created on the "escape from poverty" variable (client classified as *poor* or *extremely poor* at the outset whose final situation is *non-poor*), in order to identify the set of variables with the greatest weight in each country, and on an aggregate level, to determine the client's degree of success. These include socio-economic, business and service variables. • The set of clients forming part of the sample for the metric "Variation in the poverty segment" was then segmented; these provide the percentage rate of escape for each additional year of banking with the entity, as well as the participation of the whole client sample that overcomes the poverty line in this metric.
Client retention	• The number of clients in each cohort staying with BBVAMFG (who continue to have a banking relationship with one of its MFIs) after a defined period. Calculated as the difference between the clients at the outset and those remaining at 12.31.17.
Recurrence	• Recurrence is taken as the proportion of clients who take on successive loans, over those who took out a first loan. It is calculated with cohorts since 2011. Before inclusion in the calculation, a minimum period of monitoring is required, which depends on the institution's average transaction periods. Generally, 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 has to be 24 months, etc. • The differences in terms between individual and group banking mean that the transactions cannot be aggregated by cycles or disbursements; for this reason, only clients with individual loans are presented.
Job creation indicators	• Changes in the number of workers hired by clients over time are analyzed in order to assess micro-enterprises' capacity to generate employment. Bancamía has provided this information since October 1, 2016, so it has not been possible to include this indicator yet. Although the historical data is not available, the number of employees hired, as reported, is presented, corresponding to clients current at 12. 31.2017.
CAGR & YoY	• Compound annual growth rate (CAGR) and year-on-year growth rate (YoY). CAGR is calculated as the weighted average of the annual growth rates between several cohorts, generally 2012-2017.

National poverty lines

The official extreme poverty and poverty lines will be taken for each country, whether it is urban or rural, as published by each country's official bodies. In the event that these lines have not been updated from the previous year, the latest available will be taken and updated using the annual CPI (Consumer Price Index) in December of the year in question.

Poverty line in Chile

In 2015 the Social Development Ministry (SD Ministry) published a new methodology (NM) in consensus with a wide variety of experts[3], because the traditional measurement (TM) was no longer reflecting the situation of poverty in which many families were living[4]. The aim is to adapt to Chile's economic and social reality (higher standards) and reflect situations of deprivation that go beyond low income (multidimensional)[5].

The NM brings in some important changes, with the most significant ones summarized below:

Updated poverty line.

- The basic food basket has been updated[6] and the ratio between the poverty and the extreme poverty lines reviewed.

    - **Basic basket**: The NM for measuring poverty by income recalculates the basic food basket (with a new estimate of its contents) for the "average household".

    - **Relation between extreme poverty and poverty**
    Extreme poverty line for an average household:

$$LPE = \frac{2}{3}\ LP$$

Where
PL: Poverty line
EPL: Extreme poverty line

- **Extreme poverty line:** This value is set so that EPL covers food, clothing and housing[7]. The NM includes in its income a charge for renting the home for those who own or have the use of one. The TM, conversely, only included a charge for those who had their own home.

Use of equivalence scales, elimination of environment.

- Instead of having a single poverty and extreme poverty line (expressed in *per capita* values), lines have been drawn that depend on the size of the household (as the number of household members increases, the expense incurred to cover nutritional requirements associated with basic food and non-food needs, increases by a lower proportion). Note that the NM does not consider the environment (rural vs. urban).

- The new poverty lines are, as such, significantly higher than those applied using the Traditional Methodology[8].

- Given that the NM poverty lines are defined based on household income and takes into account economies of scale, to prepare the metrics, business income is taken (instead of *per capita* income) and the corresponding poverty line will be set, depending on the size of the household.

The Chilean poverty lines used are as follows:

	Household size	2012	2013	2014	2015	2016	2017
Extreme poverty (LOC)	1	85,838	91,274	95,888	100,944	103,139	105,511
	2	139,444	148,275	155,771	163,985	167,550	171,404
	3	185,210	196,939	206,896	217,805	222,541	227,659
	4	226,528	240,874	253,051	266,394	272,187	278,447
	5	264,825	281,596	295,832	311,431	318,203	325,522
	6	300,875	319,929	336,103	353,825	361,519	369,834
	7	335,157	356,382	374,399	394,140	402,711	411,973
	8	367,996	391,300	411,082	432,758	442,168	452,338
	9	399,622	424,929	446,412	469,950	480,169	491,213
	10	430,209	457,454	480,580	505,920	516,922	528,811

	Household size	2012	2013	2014	2015	2016	2017
Poverty (LOC)	1	128,758	136,911	143,832	151,417	154,709	158,267
	2	209,168	222,413	233,657	245,977	251,326	257,106
	3	277,817	295,409	310,344	326,707	333,811	341,489
	4	339,794	361,310	379,577	399,591	408,280	417,670
	5	397,240	422,394	443,748	467,146	477,304	488,282
	6	451,315	479,893	504,154	530,737	542,278	554,750
	7	502,739	534,573	561,598	591,210	604,066	617,960
	8	551,998	586,950	616,624	649,137	663,253	678,508
	9	599,438	637,394	669,617	704,925	720,254	736,820
	10	645,319	686,180	720,870	758,881	775,382	793,216

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3. *Economic Mobility and the Rise of the Latin American Middle Class*, World Bank 2013. **4.** The Commission for Poverty Measurement (2013-2014); Technical Cross-Institution Round Table, with representatives from the National Statistics Institute and the Social Development Ministry, with support from CEPAL (2014); Casen's 2013 Panel of Experts and the Oxford Poverty and Human Development Initiative (OPHI, 2014-2015). **5.** Social Development Ministry, *Una Medición de la Pobreza Moderna y Transparente para Chile*, CASEN 2013, 2015 [A Modern and Transparent Poverty Measurement for Chile]. **6.** The methodological review of 2015 also revised historic poverty lines (from 2013 onwards). BBVAMF Group has reviewed the lines for its entire client portfolio and the results cannot be compared with what was published in previous years. **7.** Minimum income set as necessary to meet one person's basic nutritional needs. **8.** *Nueva Metodología de Medición de la Pobreza por Ingresos y Multidimensional* [New Multidimensional Methodology for Measuring Poverty by Income] (CASEN Social Observatory 2013), page 11.

Poverty lines in remaining countries

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Colombia	2016 lines updated with Dec. CPI	2017	Extreme poverty Poverty	101,870 166,068	124,580 276,924
	National Statistics Department (DANE)[9]	2016	Extreme poverty Poverty	97,867 159,543	119,685 266,043
	DANE	2015	Extreme poverty Poverty	86,918 157,752	106,653 246,336
	DANE	2014	Extreme poverty Poverty	79,837 139,792	98,407 233,530
	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	2016 lines updated with Dec. CPI	2017	Extreme poverty Poverty	152 247	187 358
	National Institute of Statistics and Informatics (INEI)[10]	2016	Extreme poverty Poverty	150 244	184 353
	INEI	2015	Extreme poverty Poverty	137 226	169 328
	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
Dominican Republic	2016 lines updated with Dec. CPI	2017	Extreme poverty Poverty	2,164 4,465	2,258 5,015
	Ministry for the Economy, Planning & Development (MEPyD) to Mar.[11]	2016	Extreme poverty Poverty	2,076 4,285	2,167 4,813
	MEPyD	2015	Extreme poverty Poverty	2,048 4,228	2,138 4,749
	MEPyD	2014	Extreme poverty Poverty	2,041 4,212	2,130 4,730
	MEPyD	2013	Extreme poverty Poverty	1,985 4,096	2,071 4,600
	MEPyD	2012	Extreme poverty Poverty	1,888 3,896	1,970 4,375
	MEPyD	2011	Extreme poverty Poverty	1,840 3,797	1,920 4,264

Country	Source	Year	Poverty level	Rural (LOC)	Urban (LOC)
Panama	2016 lines updated with Dec. CPI	2017	Extreme poverty Poverty	60 107	71 145
	Finance & Economy Ministry[12]	2016	Extreme poverty Poverty	59 106	70 144
	Finance & Economy Ministry	2015	Extreme poverty Poverty	59 105	69 141
	Finance & Economy Ministry	2014	Extreme poverty Poverty	59 105	69 142
	Finance & Economy Ministry	2013	Extreme poverty Poverty	56 102	66 137
	Finance & Economy Ministry (to March).	2012	Extreme poverty Poverty	53 98	63 131
	Finance & Economy Ministry (to March)	2011	Extreme poverty Poverty	49 92	59 125

Currency exchange rates

All the (historical) data from MFIs is incorporated in local currency and the exchange rate applicable at December 31, 2017 is applied so that exchange rate fluctuations do not have an impact on the conclusions.

Country	Exchange rate		Source
Colombia	COP/ USD	0.0003346	BBVA Bank, mid-market rate on December 31, 2017
Peru	PEN/ USD	0.3089947	BBVA Bank, mid-market rate on December 31, 2017
Dominican Republic	DOP/ USD	0.0206927	BBVA Bank, mid-market rate on December 31, 2017
Chile	CLP/ USD	0.0016251	BBVA Bank, mid-market rate on December 31, 2017
Panama	PAB/ USD	1.0000000	BBVA Bank, mid-market rate on December 31, 2017

9.http://www.dane.gov.co/index.php/estadisticas-por-tema/pobreza-y-condiciones-de-vida/pobreza-y-desigualdad/pobreza-monetaria-y-multidimensional-en-colombia-2016 **10.** https://www.inei.gob.pe/media/cifras_de_pobreza/pobreza2016.pdf **11.** http://economia.gob.do/mepyd/despacho/unidad-asesora-de-analisis-economico-y-social/estimaciones-de-pobreza/ **12.** http://www.mef.gob.pa/es/informes/paginas/pobreza-e-indigencia.aspx

2017 Social Performance Report

Measuring what really matters

913,977
Total clients

44%
Rural environment

Colombia

Bancamía

54%
Women

USD 347,206,155
Amount disbursed

For nine years Bancamía has been working to achieve sustainable development for over 900,000 Colombians, who are changing their futures thanks to their micro-enterprises and contributing to the country's economic and social growth.

Banco de las Microfinanzas - Bancamía, S.A (Bancamía). is a well-known social bank, one of the first to serve micro-enterprises in Colombia, which opened its doors in 2008 with the aim of promoting the development of entrepreneurs, thus transforming their quality of life and the country's economy with small businesses. It came about from the merger of three non-profit organizations: Corporación Mundial de la Mujer Colombia, Corporación Mundial de la Mujer Medellín and BBVA Microfinance Foundation.

Bancamía's main client base is made up of financially excluded vulnerable entrepreneurs. It provides financial and non-financial products and services that are tailored to their needs, such as microloans, savings accounts, sight and term deposit certificates, insurance and international wire transfers, channels and services such as mobile banking and debit cards, as well as financial education.

The institution runs 200 branch offices, with a footprint in 30 of Colombia's 32 provinces, and serves 913,977 people located in 905 municipalities. It also has over 3,600 banking agents.

Commitment to rural areas and to peace

Bancamía is faithful to its commitment to the development of its remotest areas, to help eradicate poverty. With this goal it has made a concerted effort to provide products that meet the needs of rural areas, where 44% of the institution's entrepreneurs live and where there is the highest rate of financial exclusion.

It also works intensively in 200 municipalities that have been put on a priority list by the State in the peace process. This is done in cooperation with the government bodies concerned and with international organizations such as the United States Agency for International Development (USAID), through the *Rural Finance* program, reinforcing its commitment to the victims of the armed conflict, particularly those in the countryside.

Bancamía operates through 200 branch offices and over 3,600 banking agents; it remains firm in its commitment to working in the most remote areas

Headline figures

Data at December 31st, 2017

Total credit clients
913,977

Nº of disbursements in 2017
265,887

People receiving financial education
202,220

Gross loan portfolio (USD)
403,048,633

Average disbursement in 2017
1,306

Nº of branch offices
200

Amount disbursed in 2017 (USD)
347,206,155

Deposits & others (USD)
171,558,299

Nº of employees
3,485

Source: Bancamía. BBVAMF calculations.

Total clients

913,977

With over 910,000 clients, Bancamía retains its position as one of the leading players in Colombia's social development with a proven vocation of serving low-income clients: 84% of new credit clients served in 2017 are in *vulnerability*. Furthermore, the micro-enterprises that are financed have reported sustained growth, even in rural areas where poverty is more widespread and where 44% of all the institution's clients are located. In these rural environments, more of the entrepreneurs initially classified as poor succeeded in making their businesses grow, overcoming the national poverty line.

Total credit clients

330,718

79%
Vulnerability[1]

54%
Women

44%
Rural environment

54%
Primary education at best[2]

New credit clients in 2017

87,763

84%
Vulnerability[1]

51%
Women

45%
Rural environment

42%
Primary education at best[2]

987
USD
Average disbursement[3]

150
USD
Monthly net income *per capita*

3.4
people
Household size

---

1. According to the DANE poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three are 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: Bancamía. BBVAMF calculations.

1. Our clients

SDGs impacted

Socio-economic profile

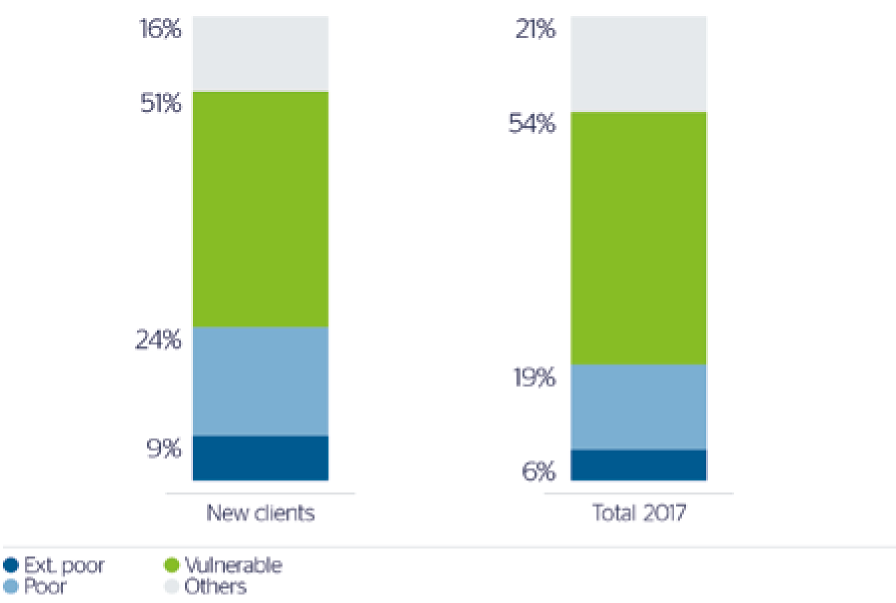
- 84% of new clients are in *vulnerability*, evidence of the efforts made to keep the focus on target groups even as scale increases. In 2017, Bancamía managed to reach 87,763 new credit clients.

- Of total credit clients, 79% are in a situation of *vulnerability*: 25% have microenterprises that generate *per capita (p.c.)* monthly net incomes below the poverty line, and 54% are *vulnerable*, with the likelihood of falling back into poverty in the event of an economic shock.

- Poverty is more frequent and severe among women, and for this reason serving vulnerable clients involves a disproportionate number of women. 54% of all Bancamía credit clients are entrepreneurial women, of whom 83% are in a situation of *vulnerability*.

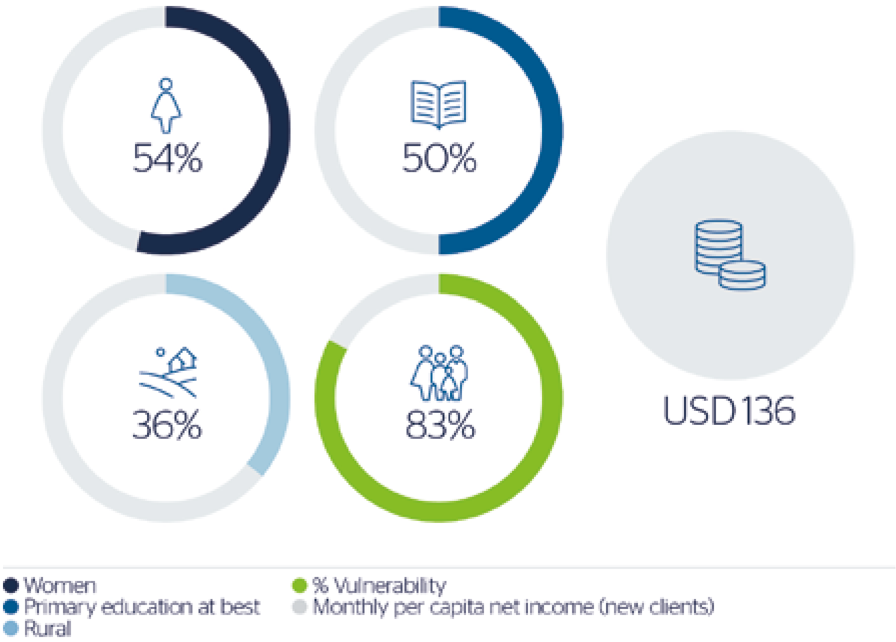
- A high percentage of these (50%) attended only primary school, an obstacle to their entering the job market. Meeting the need to access financing to set up a business is essential if they are to develop.

1. Client economic vulnerability



Source: Bancamía. BBVAMF calculations.

2. Women's profile



Source: Bancamía. BBVAMF calculations.

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1. According to the DANE poverty line (distinguishing between rural and urban environments). Clients whose net income (i.e. profit obtained from their microenterprise) divided by the number of people in the household unit is above the poverty line but no more than three times the poverty line of their corresponding country and are classified as *vulnerable*. 'Total' shows the number of clients current at 12.31.2017.
2. Proportion of clients current as of 12.31.2017 New clients (no previous loans) signed up over the year.

- 36% of women served live in rural areas, which typically have limited access to financial services and indeed to basic services.

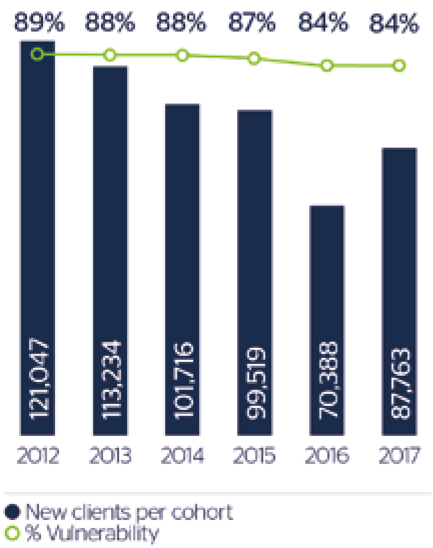
- Proof of good performance in 2017 can be seen in the increased number of new clients served over the year, and in the continued focus on serving *vulnerable* people.

- Bancamía remains firm to its commitment to reduce inequality. 51% of new clients served in 2017 were women. They account for 60% of clients under the poverty line, and for 56% of *extremely poor* clients *(see graphs 4 and 6).*

- New *poor* clients have average *per capita* net incomes of USD 60 each month, very close to the poverty line (PL) defined by DANE, whereas clients in *extreme poverty* only have USD 26 monthly, and would have to increase the income per household member by more than double to rise above the poverty line.

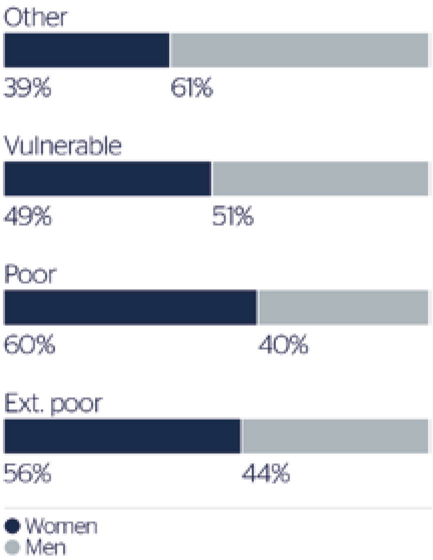
- Of the client segments served, there is one with a very high level of poverty (50%), which is those women entrepreneurs who live in homes made of non-durable materials (adobe, cardboard). This segment currently accounts for 9% of new clients served. In this case the housing material is the differentiating poverty factor *(see graph 7).*

3. **New credit clients**



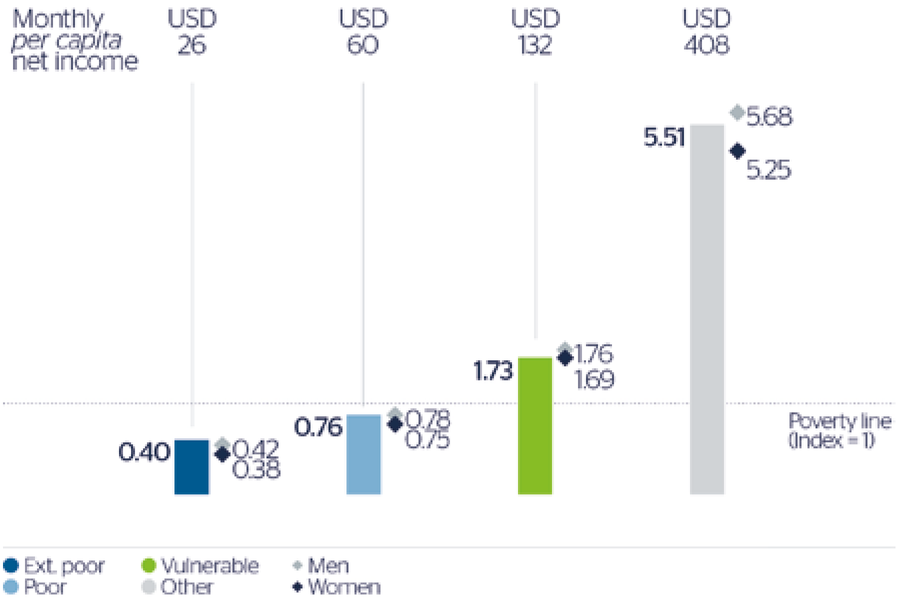
Source: Bancamía. BBVAMF calculations.

4. **New credit clients' vulnerability, by gender**



Source: Bancamía. BBVAMF calculations.

5. **Relative net income of new clients**



Source: Bancamía. BBVAMF calculations.

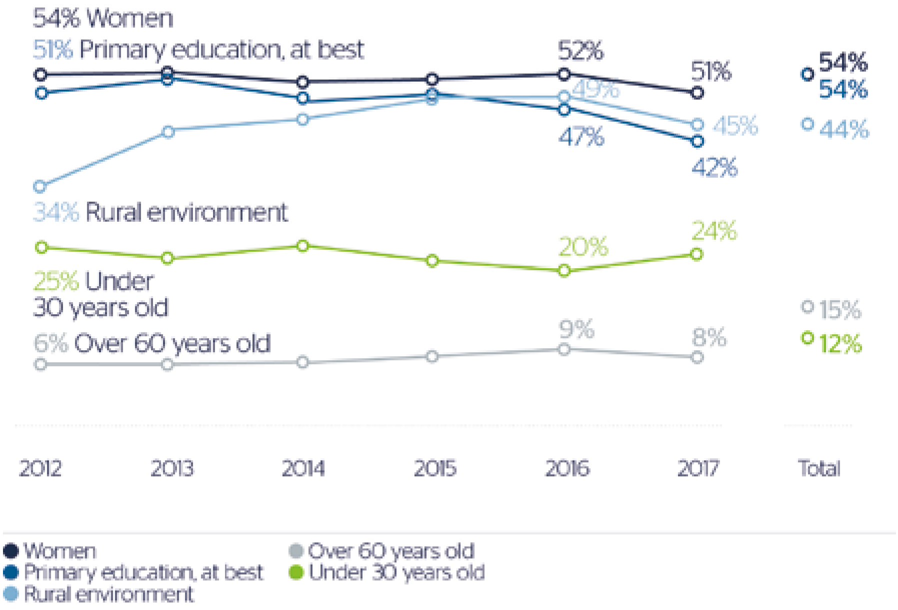
3 & 4. New clients (no previous loans) signed up over the year. **5.** According to DANE poverty lines differentiating between rural and urban environments. Considers clients signed up during the year (no previous loans).

1. Our clients

- One of the factors that determines poverty level is the level of schooling: another segment with high poverty is made up of women who, even though their standard of living is somewhat better (their housing is of better quality), have limited education (neither secondary education or apprenticeships). Of this segment, 37% are in a situation of poverty.

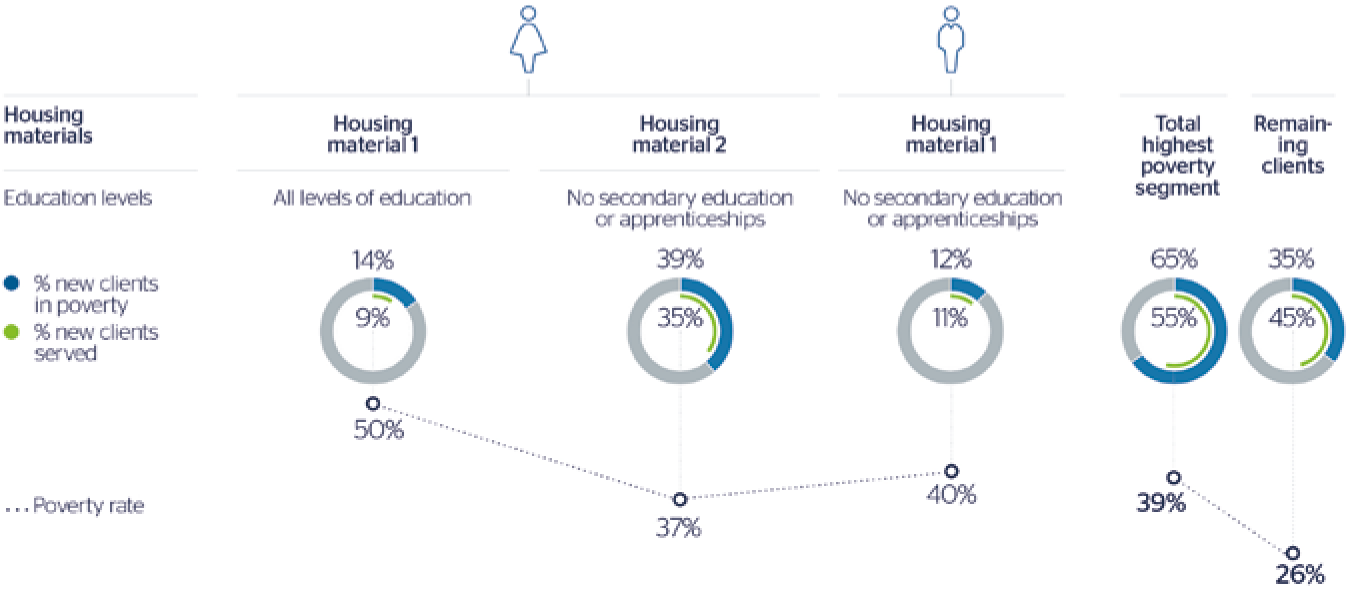
- In the case of men, there is a small segment (11% of new clients served in 2017) with high rates of poverty. Not only do members of this group live in homes made of temporary materials but neither do they have secondary education or apprenticeships. In this segment four out of every ten clients are *poor*.

6. **Profile of new credit clients**



Source: Bancamia. BBVAMF calculations.

7. **Clients with the highest poverty rates**



Housing material 1: Adobe, cardboard, metal sheeting or wood.
Housing material 2: Gray work, unfinished constructions or prefabricated houses.

Source: Bancamia. BBVAMF calculations.

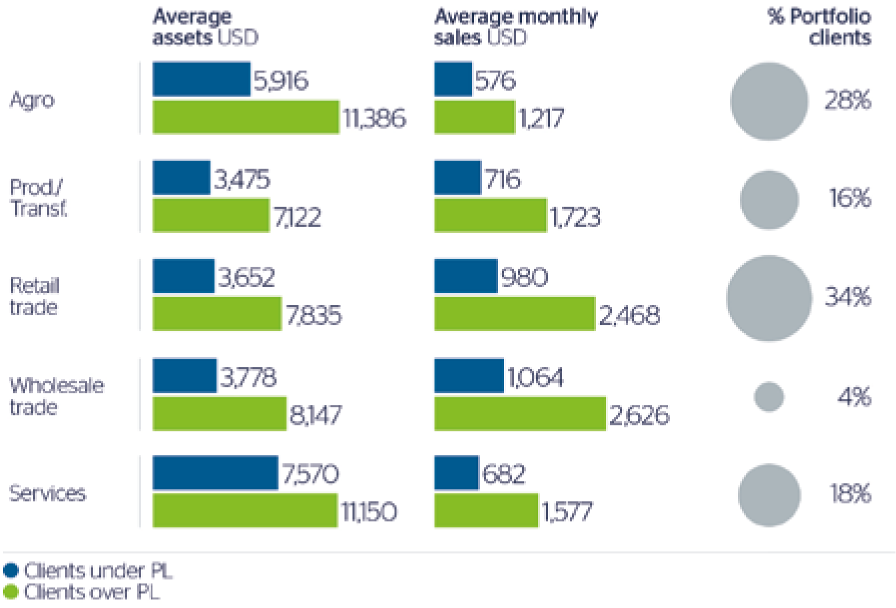
Profile of their businesses

- The entrepreneurial profiles of Bancamía clients display considerable diversity. Most work in Trade (38%), particularly in the sale of clothing and accessories, and non-specialist establishments, followed by Agriculture (28%), in which coffee growing and animal husbandry are the most popular. There is a clear disparity between average sales and assets, which are nearly double in the case of *non-poor* clients, over the *poor*, especially in the Trade sector.

- With higher overheads, clients in the Trade sector spend USD 6.6 of every USD 10 on keeping their businesses running, whereas in the Services sector they spend an average of USD 4.6.

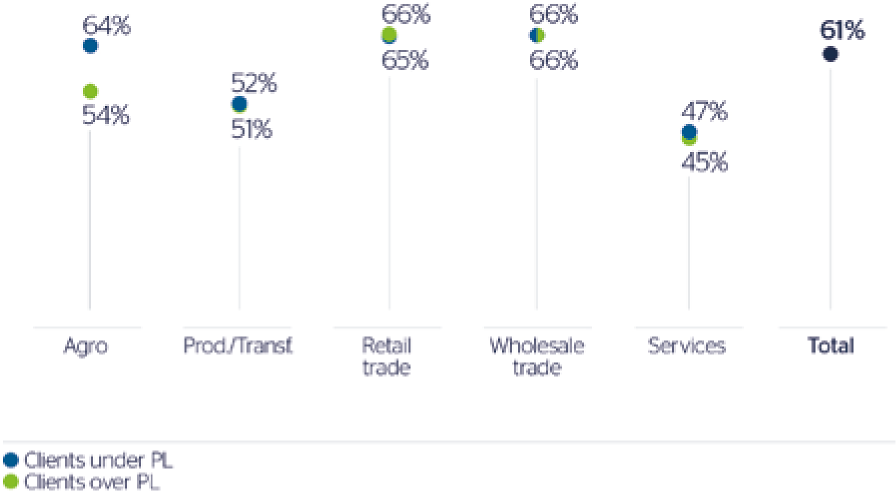
- For clients in the Agro sector, there is a greater difference in the margins between clients who are above, and those who are below the poverty line (PL); average costs among *poor* clients are 64%, while for the *non-poor* they are 54%.

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



Source: Bancamía. BBVAMF calculations.

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



Source: Bancamía. BBVAMF calculations.

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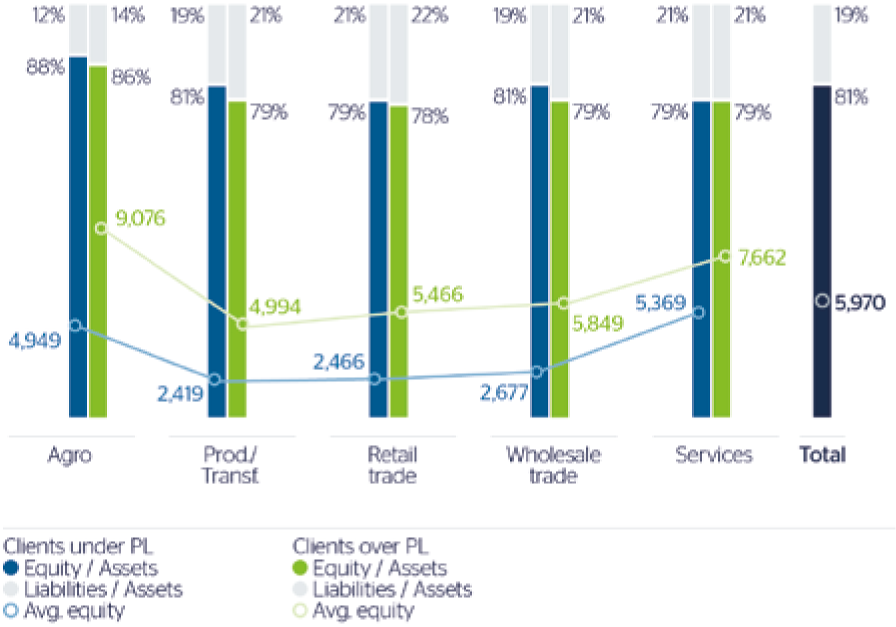
6. Covers new clients (no previous loans) signing up during the year. 'Total' shows the number of clients current at 12.31.2017. **7.** Represents new clients (no previous loans) joining throughout the year. Total' shows the sum of the participation of the segments analyzed, calculated over total new clients served in 2017. "Remaining" is the participation of segments not included in the graph, calculated from the total of new clients served in 2017. **8 & 9.** Average monthly sales and 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.

1. Our clients

- There are variations in the degree of leveraging, depending on the sector. The Agro sector has the least debt as a proportion of its total assets (12%).

- Clients in the Agro sector are in rural areas and although their asset levels are high in comparison with other sectors, they are not big enough to access traditional financing sources. Micro-lending provides a solution.

10. Assets, liabilities and equity, by sector - clients under and over the poverty line (PL)



Source: Bancamía. BBVAMF calculations.

10. Data on the assets, liabilities and equity, together with their ratios, for each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *other*) clients. The loan granted by the institution is not included in liabilities. Covers clients current at 12.31.2017.

Where our clients are

- The institution reaches over 90% of provinces. The map to the right shows the 10 provinces which have signed up the highest proportion of new *poor* clients over the year. More than a third of all the institution's clients come from this group.

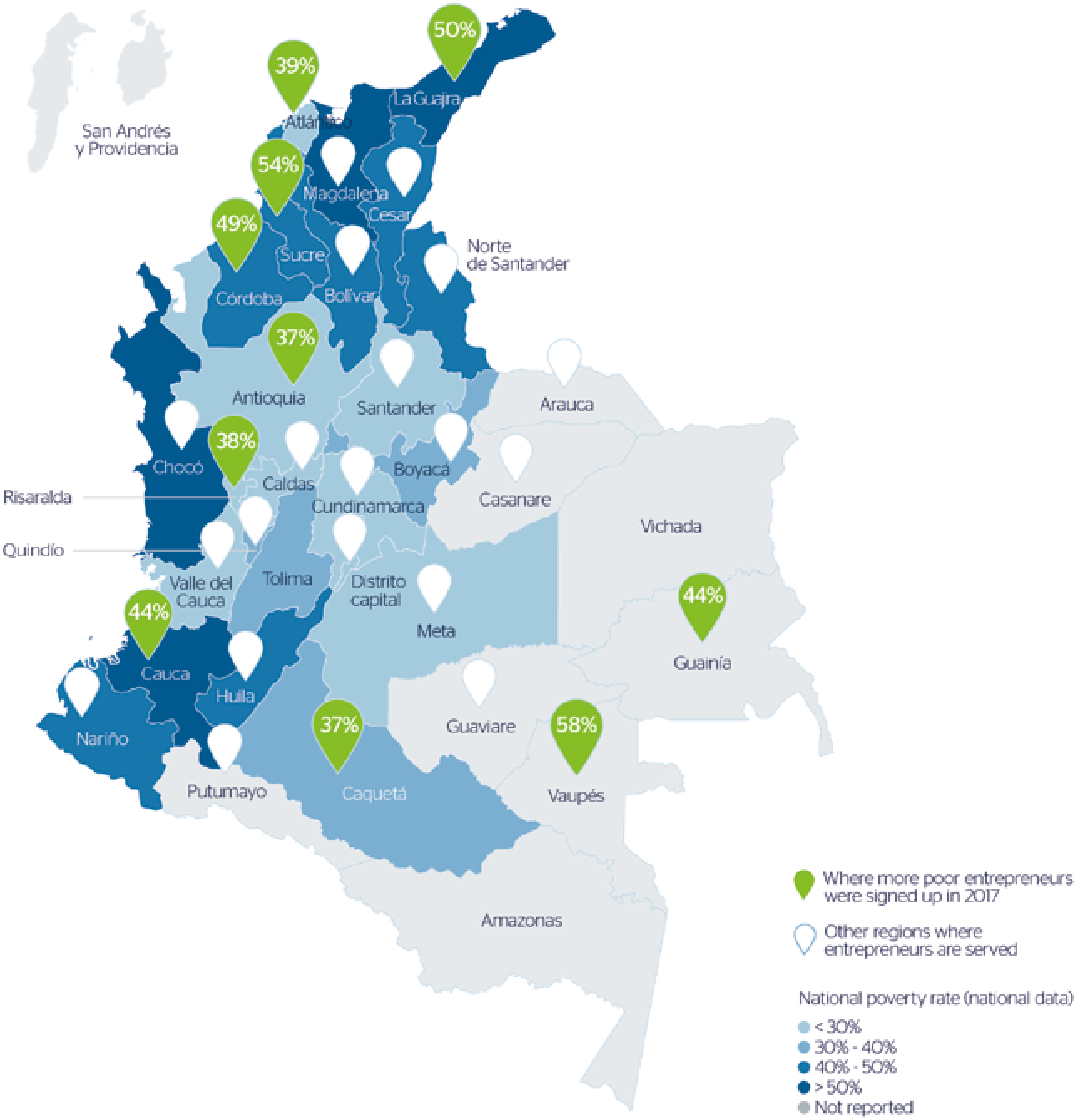
- On the north coast, the linkage of clients below the PL is greater in percentage terms, in step with the national poverty levels. It is particularly noticeable in the provinces of la Guajira, Sucre and Vaupés, where the poverty rate is particularly high: on average, one of every two clients served is *poor* or *extremely poor*.

- In addition, Bancamía has a significant presence in these areas (Guaviare, Guainía, Chocó, Córdoba and la Guajira), compared to the rest of the microfinance sector.

- A number of technological breakthroughs have enabled us to reach more clients in remote areas, achieving good results over the year: in 2017 in the provinces with the highest rates of poverty, 28,540 *poor* clients were served, 30% more than in 2016, continuing the commitment to support low-income clients.

A number of technological breakthroughs have enabled us to reach more clients in areas that are remote and in greater vulnerability

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


50%
39%
La Guajra
Atlántico
San Andrés
y Providencia
54%
Magdalena
Cesar
49%
Sucre
Norte
de Santander
Córdoba
Bolívar
37%
Antioquia
Santander
Arauca
38%
Chocó
Boyacá
Casanare
Risaralda
Caldas
Cundinamarca
Vichada
Quindío
Valle del
Cauca
Tolima
Distrito
capital
44%
Meta
44%
Cauca
Guainía
Huila
Nariño
37%
Guaviare
58%
Putumayo
Caquetá
Vaupés
Amazonas
Where more poor entrepreneurs were signed up in 2017
Other regions where entrepreneurs are served
National poverty rate (national data)
< 30%
30% - 40%
40% - 50%
> 50%
Not reported

Source: Bancamía. BBVAMF calculations.

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11. Proportion of poor households by administrative department (2016). DANE. The 10 regions with the highest percentage of *poor* new clients served during 2017 are shown.

2. Our clients' development

SDGs impacted

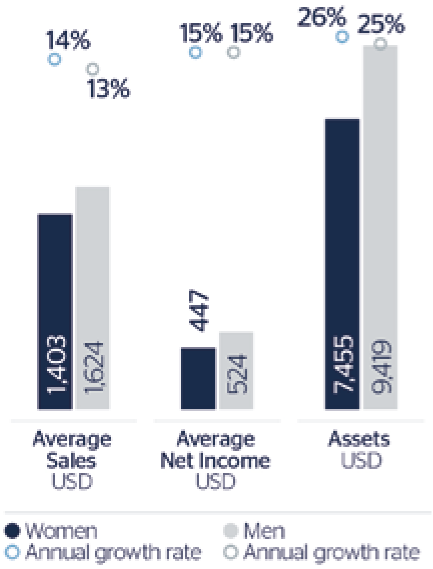
Growth of their businesses

- Bancamía clients continue to register double-digit growth in sales, net income and assets, with assets particularly buoyant, at an average growth rate between 2012 and 2017 of 25%. Due to greater sector diversification, average growth in all these financial indicators slid a little compared to 2016.

- Women's enterprises, with average assets of USD 7,455, 21% less than men's average current assets, nevertheless achieved greater growth in their annual average sales (14.4% vs. 13.2%). This shows a more intensive use of assets on the part of women: their sales ratio against assets, is higher.

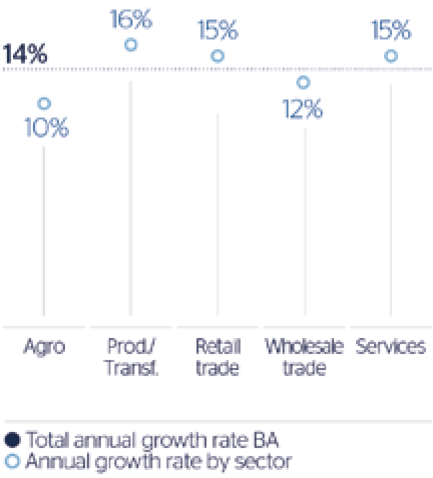
- Growth in monthly sales by sector was similar across the board and remained at 14%, without important variations apart from the Agro sector, which posted at 10%.

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



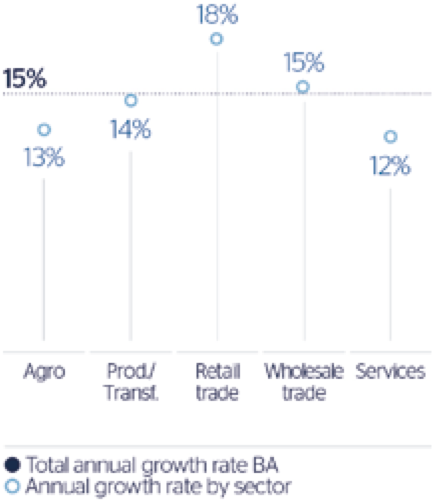
Source: Bancamía. BBVAMF calculations.

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



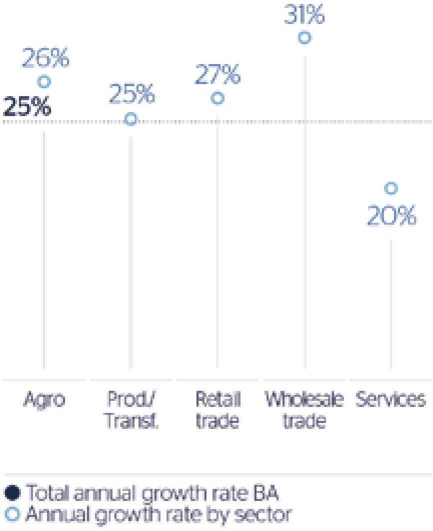
Source: Bancamía. BBVAMF calculations.

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



Source: Bancamía. BBVAMF calculations.

15. Avg. growth rates of assets, by sector



Source: Bancamía. BBVAMF calculations.

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12. Current clients at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. **13, 14 & 15.** Current clients at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector

Escaping poverty

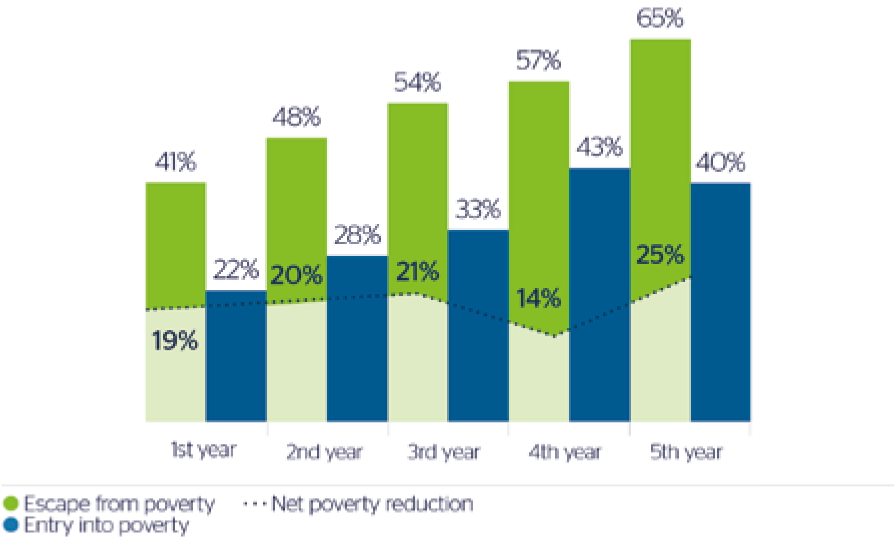
- Their good business performance enables 48% of our clients in poverty to overcome this after their first two years with the institution, while after five, this figure increases to 65%. This shows the importance of creating long-term relations with clients to guarantee their growth.

- There is also a group of clients whose net incomes shrink, and that may fall into poverty for the first time or back into it: around 16% of clients (*vulnerable* and *others)* fall into poverty and this proportion is stable over time *(see graph 17)*.

- The *poverty* segment has a net fall of 20% after two years of banking with Bancamía.

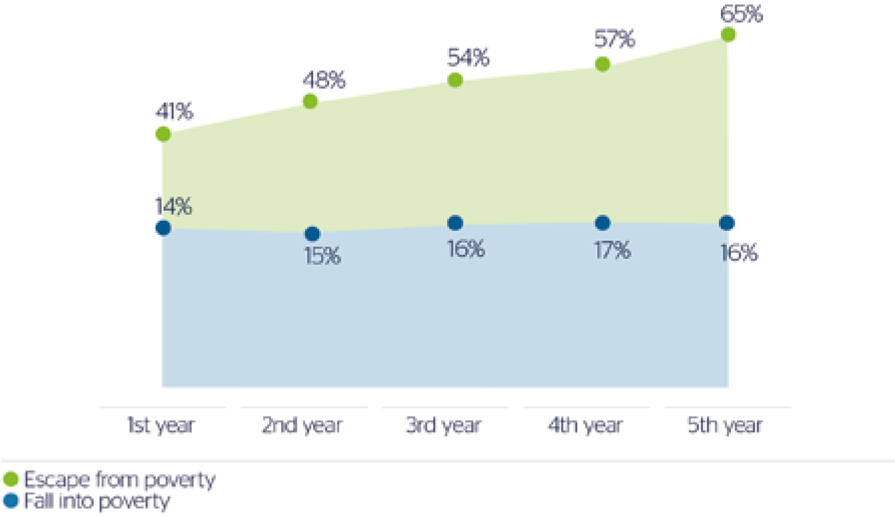
- The better-performing entrepreneurs are those who live in rural environments, where we see high rates of *escape from poverty* on the part of *extremely poor* and *poor* rural clients, even with low assets for their sector *(see graph 18)*.

16. Net poverty variation



Source: Bancamía. BBVAMF calculations.

17. Clients falling into and escaping poverty



Source: Bancamía. BBVAMF calculations.

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16. Clients current at some point in 2017 whose data was updated in the last 12 months of their relationship with the institution. 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 outset, who have climbed above the poverty line, as a percentage of all those in poverty at the outset. • Entry into poverty: Clients not in poverty (classified as *vulnerable* or *other*) at the outset, who have fallen into poverty, as a proportion of clients in poverty at the outset. • Net poverty reduction: Escape from poverty – Entry into poverty. **17.** Clients current at some point in 2017 were recorded and their data updated in the final 12 months of their relationship with the institution. Clients who have written-off are excluded from the escape from poverty figure. • 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.

2. Our clients' development

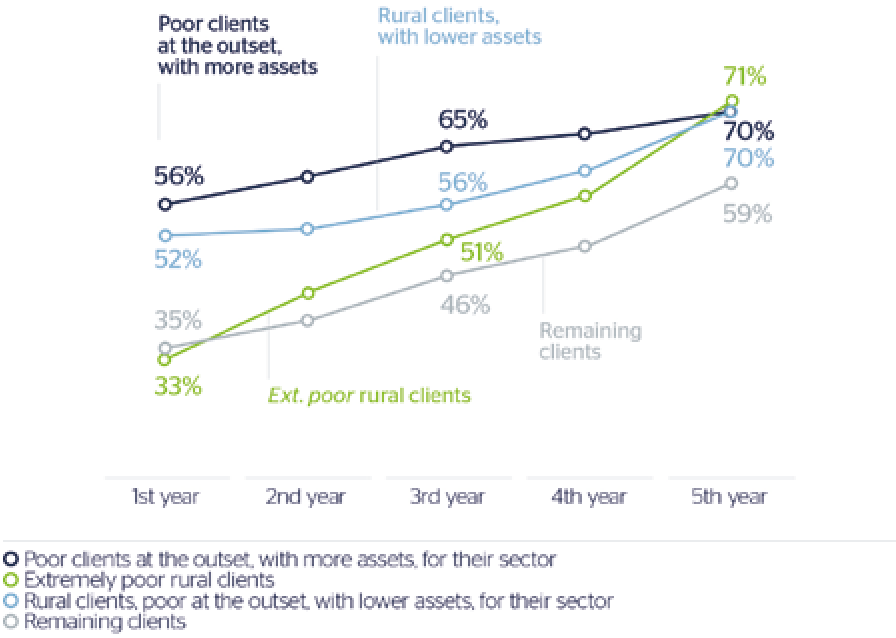
- The segment with the best *poverty escape* rates is that of *poor* clients with a high rate of assets for their sector. In other words, their poverty is less critical since they have a slight cushion. These account for 56% of clients escaping poverty *(see graph 19)* after their first year of banking.

- There is sustained growth in clients' net business income the longer they remain with the institution. Thus, their contribution to the household (monthly *per capita* net income relative to the poverty line) shows a steady trend over time; it shows how clients have been growing in every credit cycle since 2011 *(see graph 20)*.

- *Extremely poor* clients take two cycles to get over the poverty line, whereas, on average, *poor* clients manage it with the first loan. Clients renewing a credit during 2017 have posted higher growth than historical rates and the *poor*, on average, get over the poverty line in the first cycle.

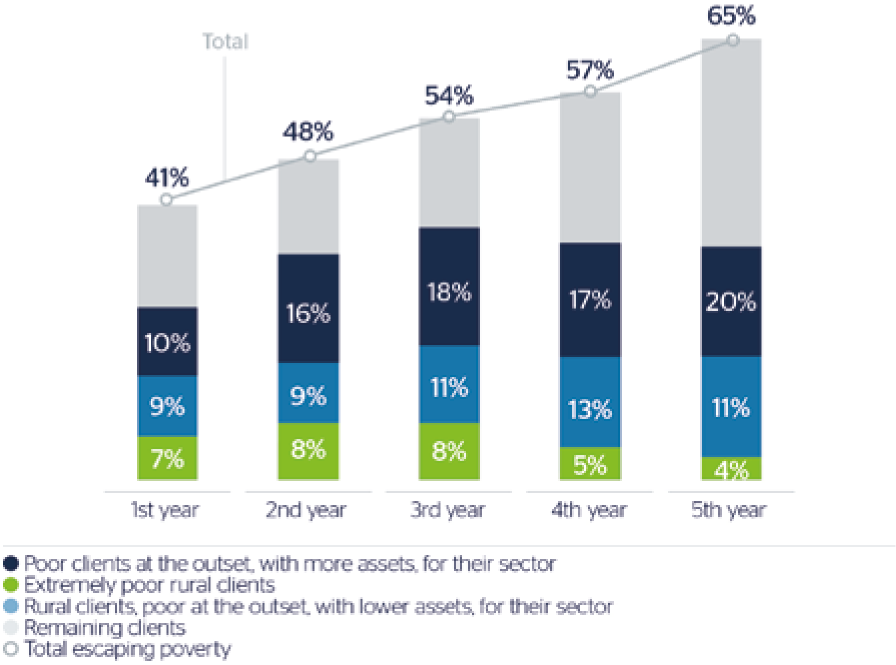
- Relative *per capita* net income growth rates reflect differences by *vulnerability* segment: the poorer segments show greater relative growth, whatever credit cycle they are in. Furthermore, these differences remain over time. That is, if a client's situation at the outset is one of

18. **Clients escaping poverty, by best performing segments**



Source: Bancamía. BBVAMF calculations.

19. **Distribution of clients escaping poverty**



Source: Bancamía. BBVAMF calculations.

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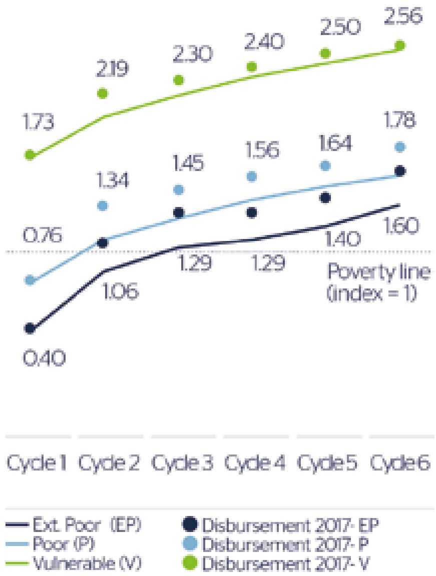
18 & 19. Clients current at some point in 2017 who have updated their data during the last 12 months. Clients who have defaulted are excluded from the "escaping poverty" category. Proportion of those escaping poverty over those who were *poor* at the outset. Indicator by segments. **20.** Client sample 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 change in monthly *p.c.* net income in each credit cycle, relative to each country's official poverty line. Relative *per capita* monthly net income takes the value of one when equal to the poverty line.

extreme poverty or they fall into poverty subsequently, they will look for investment options that enable them to make their net income increase at high rates, close to 100%. As their poverty lessens, the client will invest so as to achieve more moderate, but more stable, growth rates over time.

- When looking at clients that have taken out at least five credits with the institution, those under the PL have a high probability of escaping poverty. 55% will overcome this situation and only 19% will remain *poor*. Income instability (or volatility) is a major contributing factor to poverty; 26% of these clients will report ups and downs in their incomes, that is, they will overcome poverty and fall back into it again over the period monitored.

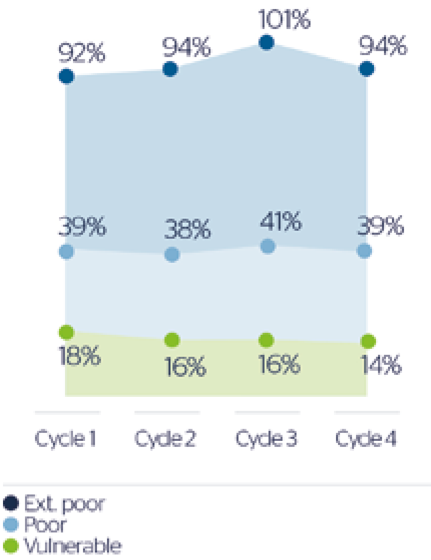
- In terms of clients who were *non-poor* at the outset, 10% will fall into poverty and another 13% will do so temporarily and climb back out again. This demonstrates the importance, not only of achieving income above the poverty line but also of stabilizing them, for which financial products need to be developed to tackle this instability.

20. **Net income relative to the PL**



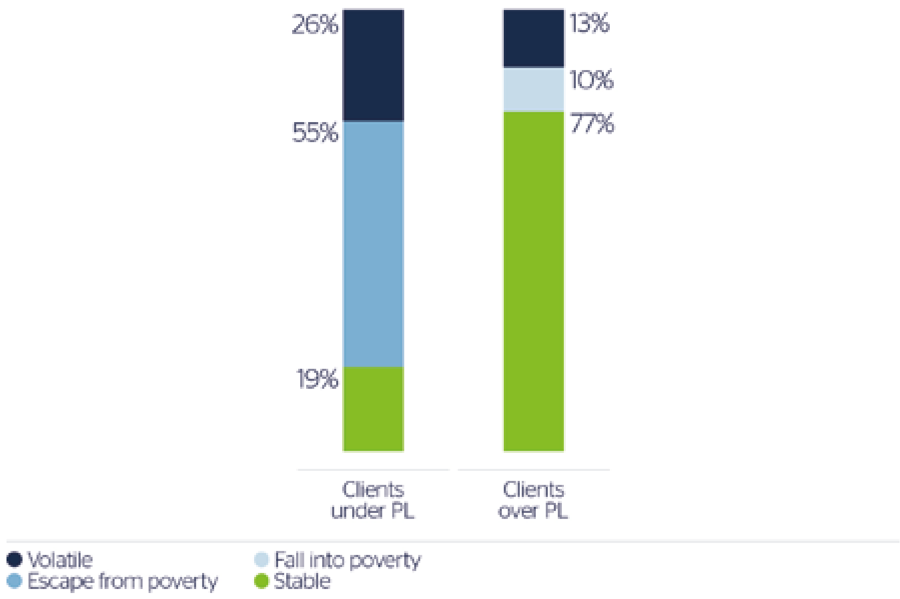
Source: Bancamia. BBVAMF calculations.

21. **Average net income growth relative to the PL**



Source: Bancamia. BBVAMF calculations.

22. **Net income volatility relative to the poverty line**



Source: Bancamia. BBVAMF calculations.

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21. Client sample served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at each credit cycle. **22.** Clients served between 2011 and 12.31.2017 who have had at least five disbursements. The classification by *vulnerability* considers their situation at the (first loan) and is segmented by under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*). • Volatile: client who crosses the poverty line at least twice. • Escape from poverty: client who escapes poverty and doesn't fall back in. • Fall into poverty: client enters poverty in one cycle and does not escape it again. • Stable: client who remains *poor* or *non-poor* throughout the five disbursement cycles.

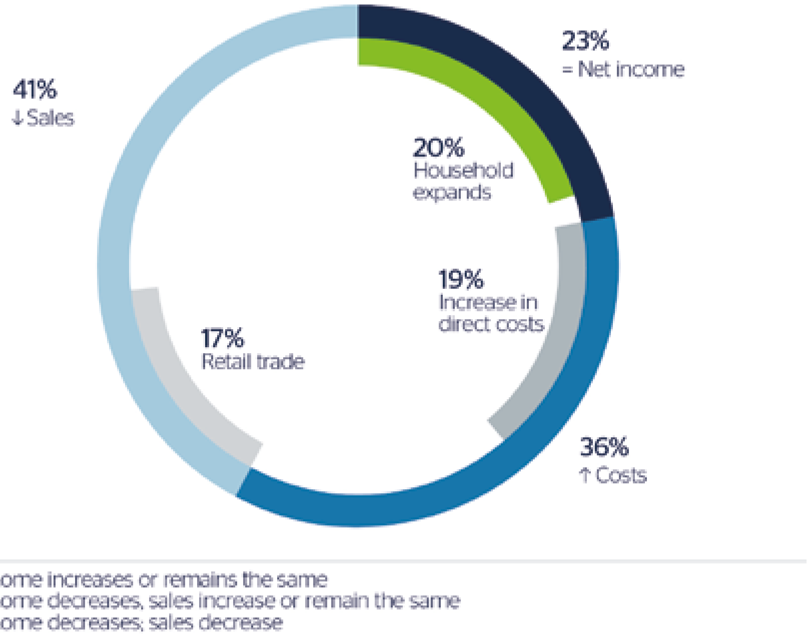
2. Our clients' development

- Looking closer at the factors dragging clients into poverty, we see that 41% of clients do so because of a reduction in their sales, whereas in 36% of cases it is due to an increase in costs: here, direct costs are the main cause. The remaining 20% enter poverty mainly due to the increase in the number of household members.

Indirect impact

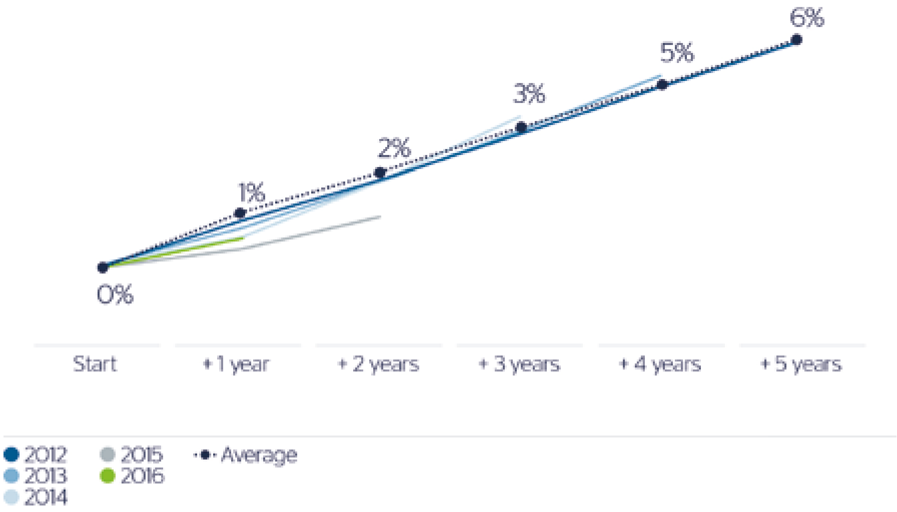
- We continue to see a positive correlation between having a link with Bancamía and indirect improvements enjoyed by its clients: 6% of the bank's clients improve their level of education after five years. This represents progress in the client's whole development.

23. Clients falling into poverty



Source: Bancamía. BBVAMF calculations.

24. Client improvement in education (by cohort)



Source: Bancamía. BBVAMF calculations.

23. Clients who have been current at some point in 2017 and have updated their data in their last 12 months with the institution. Shows those clients who at the outset were classified as *non-poor* and who are currently under the PL. **24.** Proportion of clients current as of 12.31.2017, from each cohort that has improved their educational attainment.

3. Relationships with clients

SDGs impacted

- Bancamía offers savings, credit and insurance products. 98% of our clients have savings accounts and 34% also have a credit account. Just 2.4% of clients only have a loan.

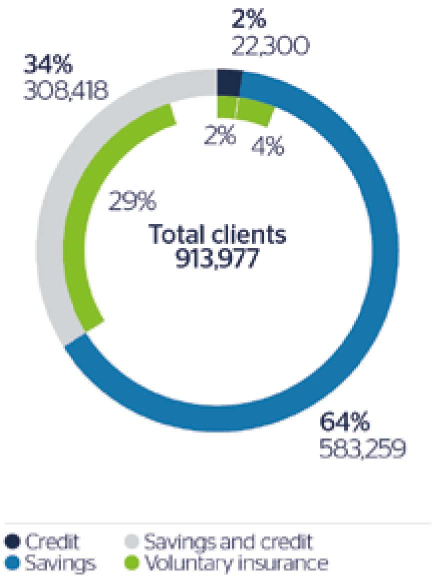
- By contrast, 29% of all our clients have taken out savings, credit and voluntary insurance, showing their interest in diversifying their product portfolios.

Relationship with our credit clients

- Bancamía's new credit clients in 2017 receive an average disbursement of USD 987, 4% less than last year. As a result, the financial burden (installment payment / monthly sales) has edged down from 2016, by 23 base points (b.p.).

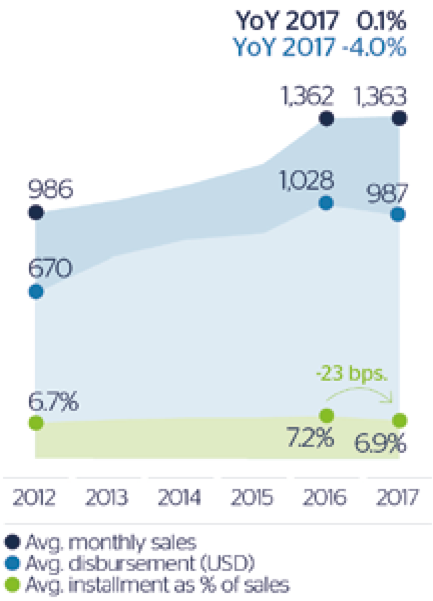
- As clients grow, so do their investment and financing needs. The relationship with the institution and their good performance enable them to access higher sums and take bigger risks. In their first disbursement, entrepreneurs receive an average of USD 856; after five years, their disbursements are twice as large (USD 1,886).

25. **Client linkage by product type**



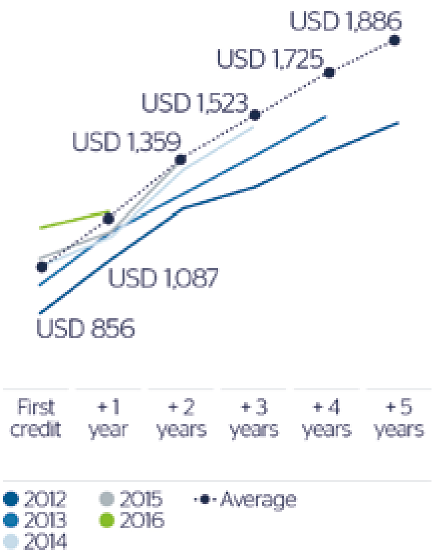
Source: Bancamia. BBVAMF calculations.

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



Source: Bancamia. BBVAMF calculations.

27. **Average disbursement per transaction (by cohort)**



Source: Bancamia. BBVAMF calculations.

28. **Credit client retention and recurrence**

Retention

Start	100%
+1 year	78%
+2 years	48%
+3 years	32%
+4 years	24%
+5 years	19%

Recurrence		**Distance (days)**
Cycle 1	100%	0
Cycle 2	49%	461
Cycle 3	26%	442
Cycle 4	15%	363
Cycle 5	9%	309
Cycle 6 or +	6%	271

Source: Bancamia. BBVAMF calculations.

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25. Clients current at 12.31.2017. **26.** 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. **27.** Variation 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. **28.** *See next page.*

3. Relationships with clients

- Bancamía has confirmed its position as a bank that is committed to its clients, with a credit client retention rate of 48% after two years.

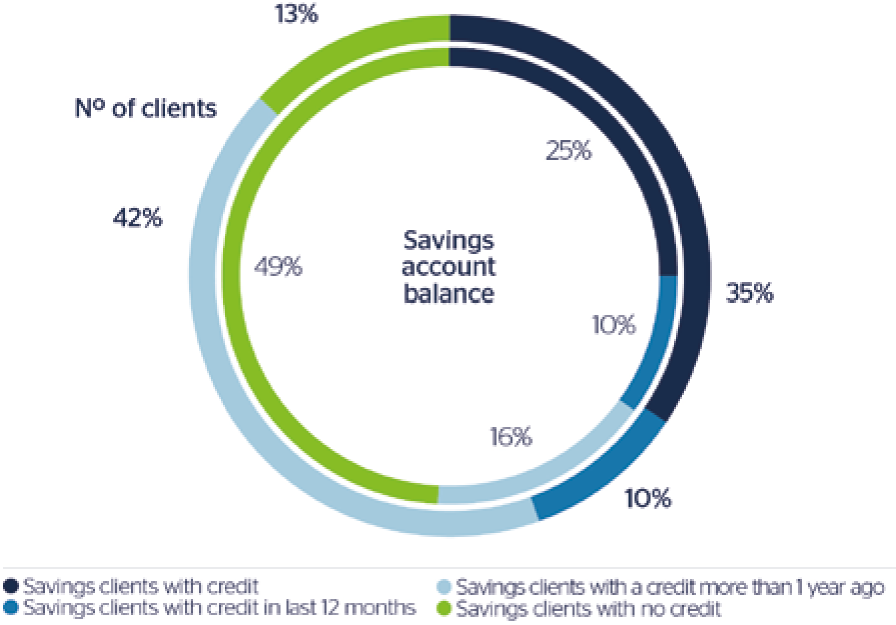
- 49% of clients access a second credit, an indicator that has grown by two percentage points (p.p). from last year. This shows that not only has our focus on new clients grown, but our existing clients have retained their reliance on the institution, and even increased it *(see graph 28)*.

Relationship with our savings clients

- Bancamía succeeded in increasing the savings balances in 2017 (+18.8% YoY) and the number of savings clients (+13.5% YoY).

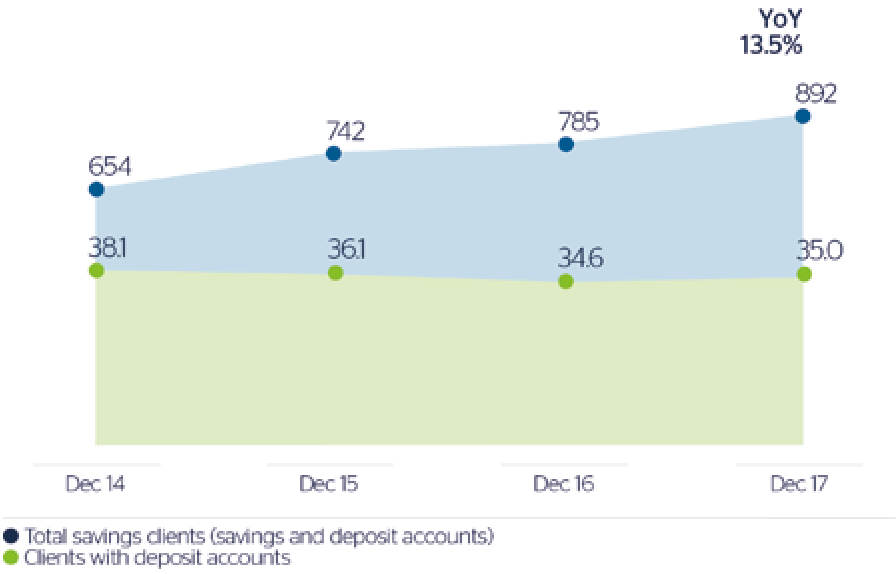
- 35% of savings clients have a performing loan with Bancamía, and 52% have had one at some point. Those who have never had a loan account for 13% of all clients, but 49% of the institution's savings balance. The balance in deposits is continuing to grow at +19% YoY, visible proof of the confidence our clients have in the institution.

29. **Linkage of savings clients**



Source: Bancamía. BBVAMF calculations.

30. **Clients with savings and deposit accounts ('000)**



Source: Bancamía. BBVAMF calculations.

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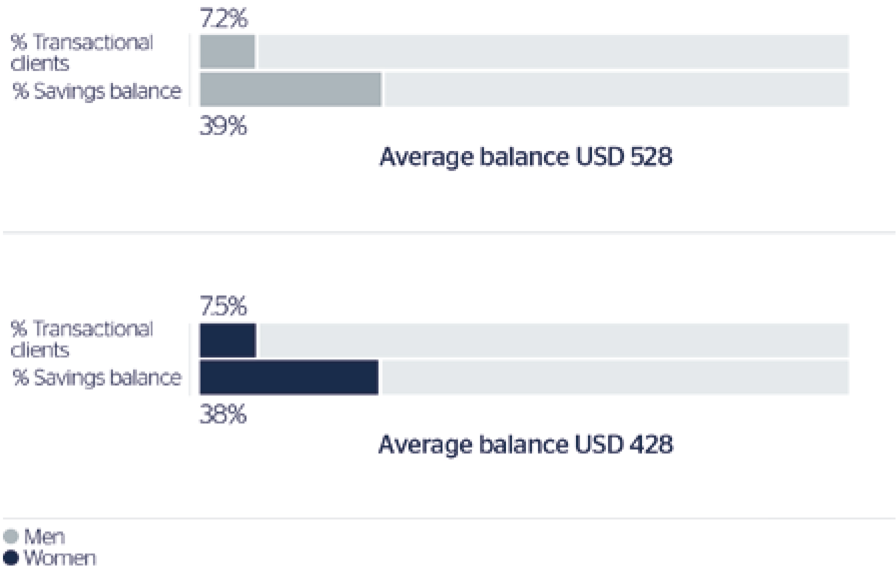
28. 'Retention': Percentage of credit clients in each cohort still current at each year-end and to 12.31.2017; shows averages from 2012-2017 cohorts. 'Recurrence': Clients served since 2011. % of clients that, after an initial loan, accesses another. Distance between cycles is the number of days between two successive disbursements. **29.** Clients and savings balances at 12.31.2017. **30.** Clients with savings products (savings accounts & deposits) on each date.

- 7% of clients have three or more movements in their bank account and there are differences by gender. Men have higher balances: USD 528, compared to USD 428 for women, a gap of 23%.

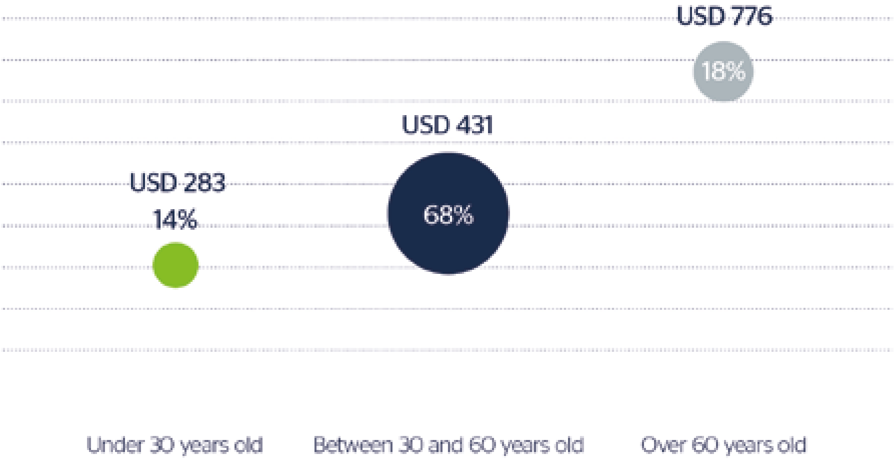
- In Bancamía older people have higher average balances (>60 years old have USD 776), while young people have the lowest balances (<30 years old, USD 283 on average), exposing them to greater short-term risk because of uncertainty.

31. Transaction figures, by gender



Source: Bancamía. BBVAMF calculations.

32. Savings account balance, by segment



Source: Bancamía. BBVAMF calculations.

31. Clients who conduct transactions (nº of movements in the last three months), excl. administrative movements (interest, fees) in their overdrawn balances at 12.31.2017. **32.** Clients who have conducted three transactions in the last three months), excl. administrative movements (interest, fees) on their savings balances at 12.31.2017.Percentages represent the number of clients in each segment.

Note: In 2017, a methodological change to the way in which clients' net business income was calculated, and in the rural vs. urban category to which they belong was made. So as to retain the capacity to compare indicators across the measurement timeline, the historic figures have been adjusted, which now show different data from those published in earlier Social Performance Reports.

Macroeconomic analysis

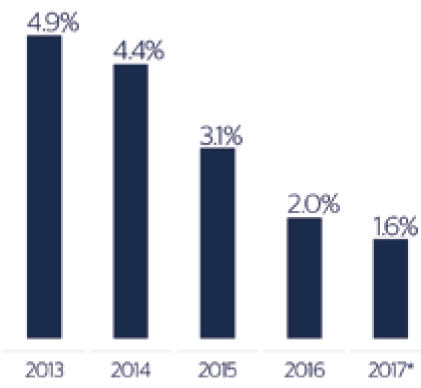
Colombia

The country has gone into its fourth consecutive year of growth slowdown, against a backdrop of higher inflation and unemployment, which has driven an uptick in poverty, with some improvement in inequality levels, although these are still among the highest in the region[1].

Economic context

Economic growth: the least dynamic since 1999

GDP Growth (var)



Source: Central Bank (Banco de la República)
* Estimate: BBVAMF Research.

In 2017 the Colombian economy grew by 1.6% due to the slow recovery of internal demand, well below the figures in the 2000-2016 period, when the economy expanded by an average of 4%[2]. The weakness of private consumption and the limited growth of investment after the sharp contraction in 2016 were the key factors underlying the sluggishness of the economy.

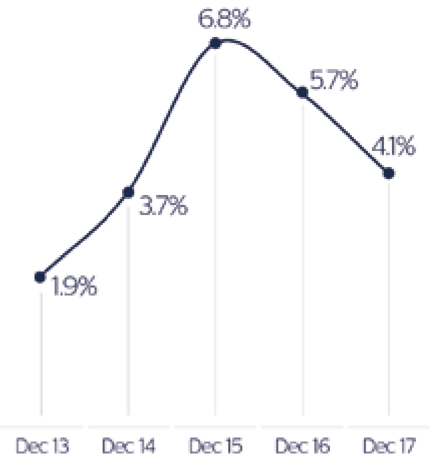
The negative impact on economic activity is accounted for by low consumer confidence, the increase in household indebtedness, the negative shock of the tax reform and a rise in unemployment, together with brusque contraction in the Construction sector and delays in the execution of 4G contracts, among others. The Mining, Construction and Manufacturing sectors shrank the most, while Trade edged up by just 0.8%.

The first semester was less active: at 1.2%, growth was weak. In the second half activity recovered, expanding by 2.3%, mainly because of the recovery in oil prices and production, added to the uptick in other sectors, such as Coffee.

Shrinking investment and public consumption, together with the meteorological El Niño Costero phenomenon had an impact on the first half

Inflation: converging with central bank targets

Inflation (CPI var)



Source: Central Bank.

The effects associated with the meteorological El Niño phenomenon and the strikes in the freight and agricultural transport segments caused annual food inflation to reach historic highs in 2016, topping 15%. When these factors are stripped out, inflation has been dropping, and posts lower than the long-term inflation targets.

Meanwhile, weak demand means that the output gap is in negative territory because of economic growth operating under its potential. This suggests a production overcapacity which has absorbed the impact on inflation of both indirect taxation and the increase in the minimum wage and the index-linking of certain items to inflation in 2016.

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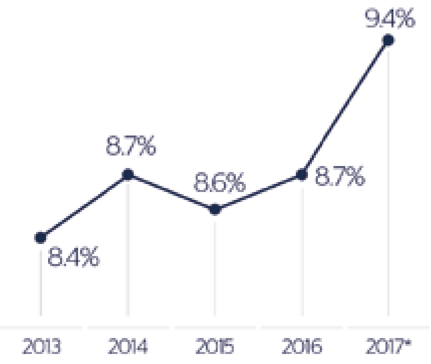
1. Conducted to the end of November 2017. **2.** All estimates by BBVAMF Research.

Economic context

Labor market: the slowdown weakens the labor market

Unemployment rates (% of the workforce)



Source: Central bank.
* Estimate: BBVAMF Research.

In 2017 the year-on-year unemployment rate (December 2016 – November 2017), was 9.4%, while the global participation rate was 64.4% and the occupation rate posted at 58.4%, a deterioration from 2016. Average unemployment spiked up in the 13 most important metropolitan areas, coming in at 10.7%. In fact, unemployment rose in all geographical areas, apart from in the countryside. Quibdó, Cúcuta, Armenia and Riohacha were the regions with the highest rate of unemployment.

The sector providing work for most people was Trade and hospitality (27%), followed by Shared, social and personal services (20%), Agriculture, stockbreeding, hunting, forestry and fishing (17%) and the Manufacturing industry (11%).

A wider indicator of the labor market situation is subjective underemployment, which came in at 26.5%, unchanged from 2016, and reflects the wish, as expressed by the worker concerned, to increase his/her income, number of hours worked or to having a job better matched to his/her individual abilities.

The number of waged workers in the formal economy slipped a little, recording growth in non-waged employment in the informal economy. Stagnant employment levels and the increase in unemployment are accounted for by the slowdown in economic activity.

Financial inclusion: financial coverage extends to the whole country

According to official data, financial inclusion in Colombia[3], measured as the percentage of adults with one or more financial product, rose to 79.1%, equivalent to 26.6 million people, up from its 2016 level of 77.4% in 2016. This increase of 1.7% in the last year translates into a figure of around 1,017,000 adults having a financial product for the first time.

The star product for inclusion is the savings account. 74% of adults, around 25 million people, possess this product, of whom 72% carry out some kind of economic activity. On the credit side, 27% of adults use credit cards, while 23% use other financial consumer products.

52% of the population with financial products are women, meaning that women are more active users of financial products.

Nationwide coverage has been achieved, with the presence of some kind of access point to the financial system. 75% of these access points are chip-and-pin terminals, 20% are banking agents, 3% are automatic teller machines and the remaining 2% are bank offices. In the latter category, payments made up 40% of the transactions carried out, 32% were deposits and 15%, withdrawals.

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3. Banca de las Oportunidades: Quarterly Financial Inclusion report, September 2017. **4.** All estimates for 2017 are by BBVAMF Research.

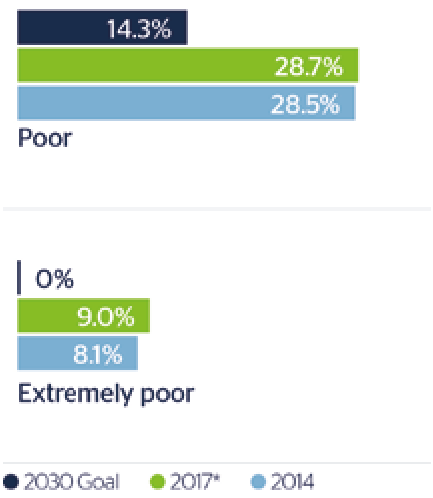
Social environment

For banking agents, installment collections were the most frequent type of transaction, accounting for 52% of the total, followed by withdrawals at 18%, deposits with 16% and 11%, payments. This channel needs to become ubiquitous in order to continue making progress with financial inclusion, since it brings down transactional costs for people living in rural areas, where populations are more disperse, as well as underpinning a whole range of transactions between individuals and companies.

> *The rise in poverty is a result of higher inflation between 2015 and 2017, together with greater unemployment because of more sluggish growth*

Poverty: higher inflation and slower growth put a brake on progress made against poverty

Poverty (% of the population)



Source: DANE. *Estimate: BBVAMF Research. UN

In 2017, 28.7% were economically poor, an upward variation of 0.2 percentage points from 2014, when it was 28.5% of the population, in turn a 0.9 percentage points variation from the minimum recorded in 2015[4].

The upturn in poverty is explained by the increase in inflation between 2015 and 2017, reflected in an adjustment in the value of goods and services that make up the basic food basket defining the poverty line, as well as the rise in unemployment, associated with a lower rate of economic activity.

Poverty in rural areas, represented by the municipal capitals, increased from 24.6% in 2014 to 25.3% in 2017. Poverty in populated and remote rural areas was 38.8%, a reduction of 2.6 percentage points from 2014, when it was 41.4%.

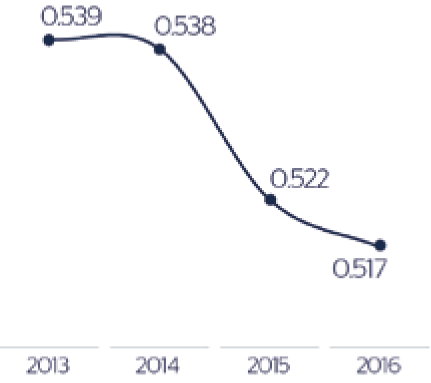
The city with the highest rate of economic poverty in 2016 was Quibdó, at 49.2%, followed by Riohacha with 45.5% and Valledupar with 35.5%. In the provinces of Chocó, La Guajira, Cauca and Magdalena, over half the population was in a situation of monetary poverty.

In 2017 the poverty gap, the indicator that measures the amount of money a poor person needs to stop being poor, that is, for their economic position to rise above the poverty line, reached a value of 10.5%, slightly lower than in 2014, when it stood at 10.8%. This indicator has shown a marked improvement in recent years: in 2005 it was around 22%, that is, the effort expended to obtain the necessary income to be able to overcome poverty was double the effort currently required.

Social environment

Reduction in inequality

Inequality (Gini ratio)



Source: DANE.

In 2016, income inequality as measured by the Gini indicator ratio (that takes values between 0 and 1, ranging from absolute equality to maximum inequality), stood at 0.517 nationally, compared to 0.538 in 2014. In urban areas the ratio was 0.495, compared to 0.458 in populated and remote rural areas.

Colombia has one of the highest rates of inequality in the region, despite having reduced this ratio since 2002 by an average of 0.8% every year, a reduction which has doubled in speed between 2014 and 2016.

Income levels in the richest quintile (quintile V) account for around 34% of household income, whereas average income in the quintile with the least resources (quintile I) is just 5% of the total.

Supply factors put a great deal of pressure on inflation in 2016; these factors having subsided, it has settled at below long-term target levels

Other dimensions

When we analyze the households facing deprivation in terms of their educational, health, and work conditions, together with their access to public services and their housing conditions, we see that 46% of households show low educational achievement, 28% lag behind at school, 74% work in the informal economy, 11% are long-term unemployed and 5% face entry barriers to healthcare. 5% live in housing made out of inadequate flooring and exterior wall materials, 12% of this housing does not have proper sewage and drainage, and 2% does not have electricity.

While 97% of urban households have running water, in the rural areas only 60% of homes have piped water. 98% of urban households have a waste collection service, but this is only available in 27% of rural households.

2017 Social Performance Report

Measuring what really matters

493,164
Total clients

26%
Rural environment

Peru

Financiera Confianza

50%
Women

USD 633,338,655
Amount disbursed

Financiera Confianza is an institution with a nationwide footprint, offering a complete range of financial products and support, to improve the incomes and standard of living of around half a million clients, whom it serves throughout the different phases of their business life cycles.

Financiera Confianza S.A.A. (Financiera Confianza) is a leading microfinance institution in Peru, with a mission of providing low-income families with opportunities, so that they can improve their incomes and standard of living with Productive Finance. The institution is a result of the merger in 2013 of Caja Nuestra Gente and the original Financiera Confianza, two institutions with a long track record in microfinance and extensive coverage across the nation. BBVAMF created Caja Nuestra Gente back in 2008 by merging three entities: Caja Nor Peru, Caja Sur and Edpyme Crear Tacna.

Financiera Confianza is the only microfinance institution with a physical presence in every one of the country's 25 provinces. It is particularly active in rural areas, with 153 branch offices and an extensive network of customer service points from which it helps clients along their journey of sustainable economic and social development. It currently serves around half a million people, whom it supports with financial products and services, as well as training, over time.

By making a responsible credit assessment, the institution encourages the progress of entrepreneurs with the net incomes generated by their businesses. This has given Financiera Confianza the highest caliber portfolio in the country's entire microfinance system, also making it the third largest microfinance institution by number of entrepreneurs with micro-enterprise credits: more than 200,000 clients in its portfolio have loans.

In 2017, this institution has continued innovating by designing credit products in areas such as access to higher education, housing improvements and healthcare.

Financiera Confianza has an extensive microfinance network, enabling it to serve around half a million people, whom it supports with financial products and services throughout their entrepreneurial journey

Headline figures

Data at December 31st, 2017

Total credit clients	493,164
Nº of disbursements in 2017	306,508
People receiving financial education	36,672
Gross loan portfolio (USD)	484,176,610
Average disbursement in 2017	2,066
Nº of branch offices	153
Amount disbursed in 2017 (USD)	633,338,655
Deposits & others (USD)	313,790,063
Nº of employees	2,127

Source: Financiera Confianza. BBVAMF calculations.

Total clients

493,164

Financiera Confianza has over 211,000 credit clients and gives priority to low-income micro-entrepreneurs, with 70% of its clients in *vulnerability*. 42% of the new clients joining in 2017 have been banked* thanks to the institution. Our clients' good performance is evidenced by annual growth rates of their assets of close to 30%, suggesting an accumulation of assets and reinvestment in their micro-enterprises. Furthermore, Financiera Confianza has improved client service by extending its range of products.

* "Banked" clients, who are using the formal financial system for the first time in the last 12 months.

Total credit clients

211,635

70%
Vulnerability[1]

50%
Women

26%
Rural environment

17%
Primary education at best[2]

New credit clients in 2017

81,212

75%
Vulnerability[1]

52%
Women

24%
Rural environment

14%
Primary education at best[2]

1,294
USD
Average disbursement[3]

238
USD
Monthly net income *per capita*

2.9
people
Household size

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1. According to the INEI poverty line (differentiating between the rural and urban environments). 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: Financiera Confianza. BBVAMF calculations.

1. Our clients

SDGs impacted

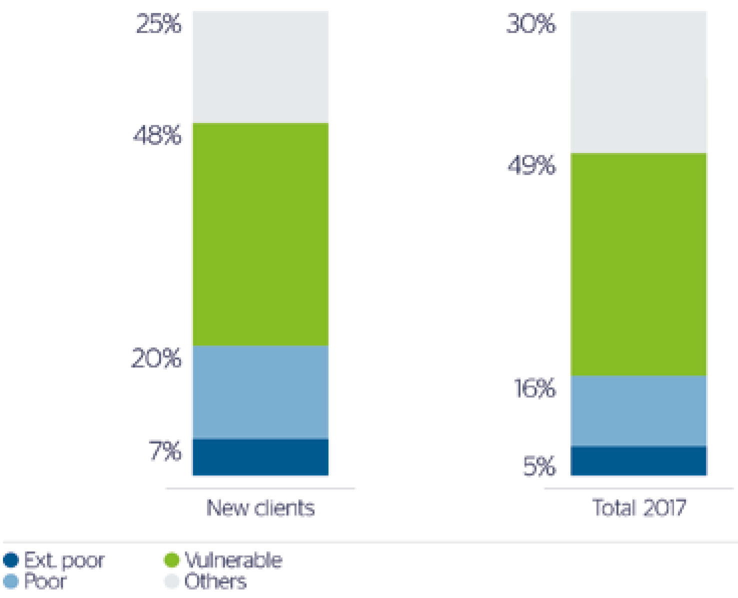
Socio-economic profile

- 70% of the institution's clients are in a situation of *vulnerability,* with 21% of these not generating enough monthly net income to buy a basic basket of foodstuffs, the poverty line (PL) marker for each household member.

- In 2017, Financiera Confianza served 81,212 new clients, of whom 75% are in *vulnerability.* Poverty is much more widespread among women, who account for 60% of the new *poor* clients served, and 79% of the *extremely poor*.

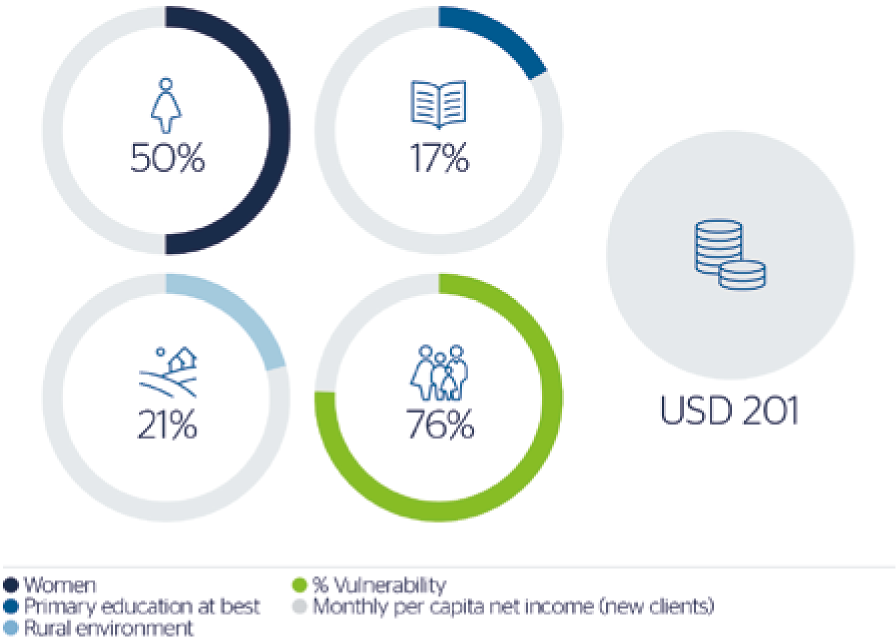
- 50% of our clients are women, and of these 76% are in *vulnerability*. 28% are below the PL. The educational level is high, with only 17% of women having primary education at best. They are women entrepreneurs, most of whom (60%) work in Trade, unlike men, who concentrate their activities in Services and Agro.

1. **Client economic vulnerability**



Source: Financiera Confianza. BBVAMF calculations.

2. **Women's profile**



Source: Financiera Confianza. BBVAMF calculations.

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1. According to the INEI's poverty line (distinguishing between rural and urban environments). Clients whose *per capita* net income (i.e. profit obtained from their microenterprise) divided by the number of people in the household unit is above the poverty line but no more than three times the poverty line of their corresponding country and are classified as *vulnerable*. 'Total' shows the number of clients current at 12.31.2017. **2.** Proportion of clients current at 12.31.2017. New clients (no previous loans) signed up over the year.

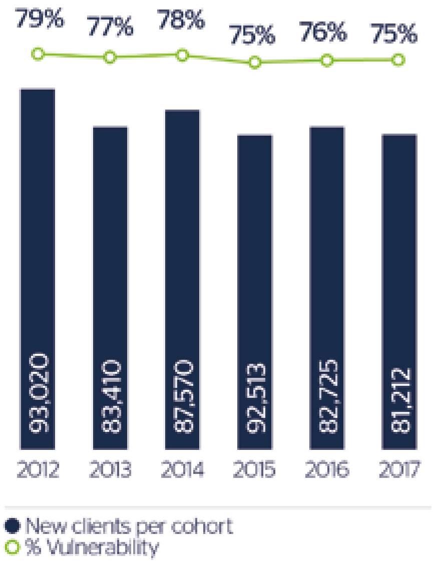
- The businesses of female entrepreneurs served by Financiera Confianza in 2017 generate an average of USD 6.7 a day per household member (USD 201 *p.c.* monthly net income) which is below the minimum wage USD 8.7 (USD 263).

- Financiera Confianza puts a priority on offering financial opportunities to young people to break the cycle of poverty: 42% of new clients served in 2017 were young, and this segment accounted for 26% of all credit clients (*see graph 6*).

- New clients in *extreme poverty* possess a *p.c.* monthly net income of 38% of the PL, so their *p.c.* monthly net incomes would have to increase by 164% to make it to that line. *Poor* clients' net incomes would have to grow by 28% to overcome poverty.

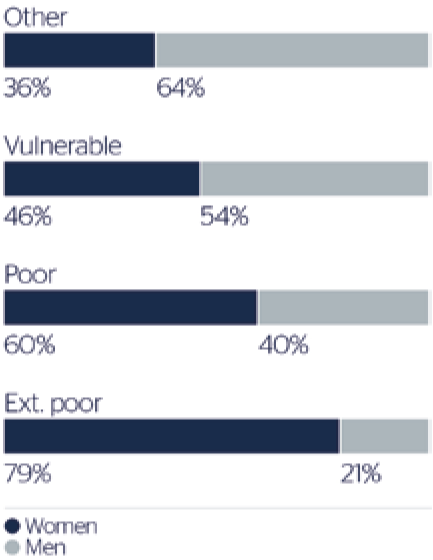
- We have sought to identify the features common to clients suffering greater poverty levels: gender, level of studies and the sector in which they develop their activity, are relevant factors in determining it. 44% of urban women without higher education or apprenticeships working in the Retail trade sector are *poor*, followed by those working in Wholesale trade (42%) (*see graph 7*).

3. New credit clients



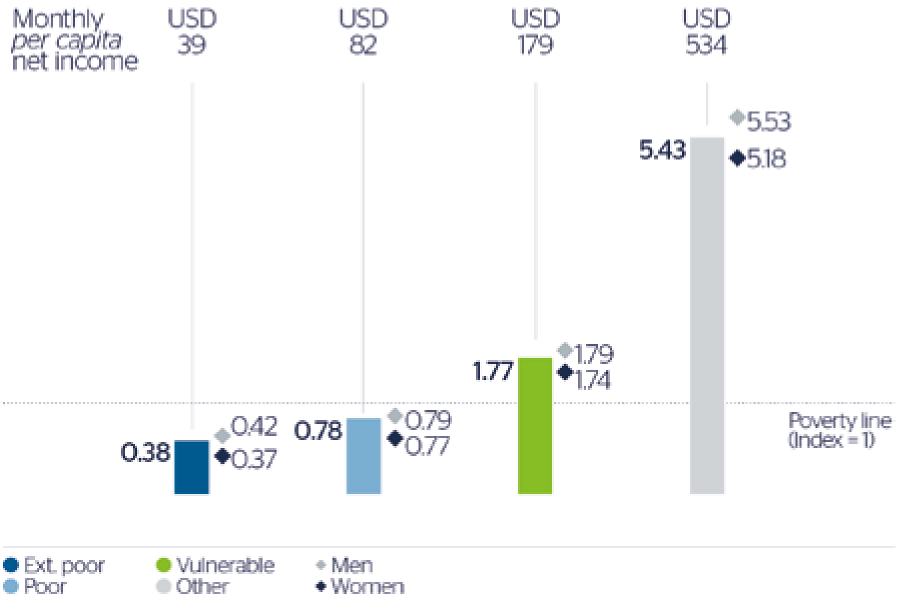
Source: Financiera Confianza. BBVAMF calculations.

4. New credit clients' vulnerability, by gender



Source: Financiera Confianza. BBVAMF calculations.

5. Relative net income of new clients



Source: Financiera Confianza. BBVAMF calculations.

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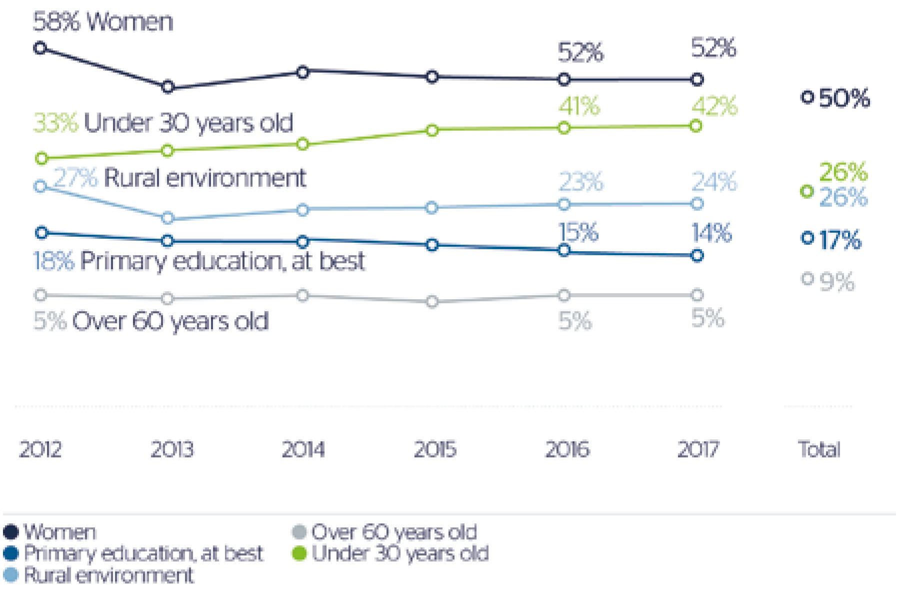
3 & 4. New clients (no previous loans) signed up over the year. **5.** According to INEI (National Statistics and IT Institute) poverty lines, differentiating between rural and urban environments. Considers clients signed up during the year (no previous loans).

1. Our clients

- Peru has one of the highest levels of education in Latin America, which is why women without higher education or apprenticeships have the highest rate of poverty. In the case of men, the highest poverty levels are to be found in those who have not even been to secondary school.

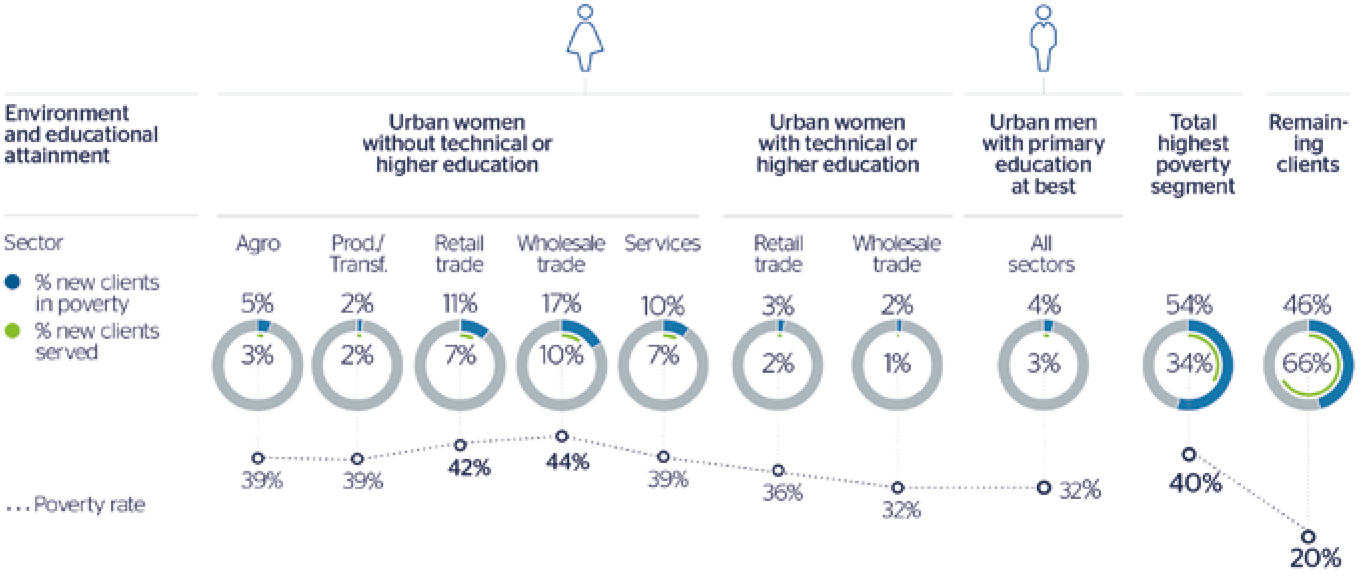
- People without higher education opt to invest in small businesses requiring low technical qualifications and relatively high short-term profitability (such as Trade), to offset the difficulty of accessing resources or the traditional labor market. This data shows the need to invest in education, as already acknowledged by Financiera Confianza, which has launched several pilot projects in training during 2017, in collaboration with Peru's Banking & Insurance Authority (the regulator).

6. **Profile of new credit clients**



Source: Financiera Confianza. BBVAMF calculations.

7. **Clients with the highest poverty rates**



Source: Financiera Confianza. BBVAMF calculations.

- Women are particularly vulnerable in Peru. It is noticeable that, even if they have higher education or apprenticeships, the segment of "women" in and of itself continues to experience high economic *vulnerability* (it has the second highest rate of poverty, at over 30%), since some of their conditions at the outset (access to property or to the job market, and heading up single-parent families) make it more difficult.

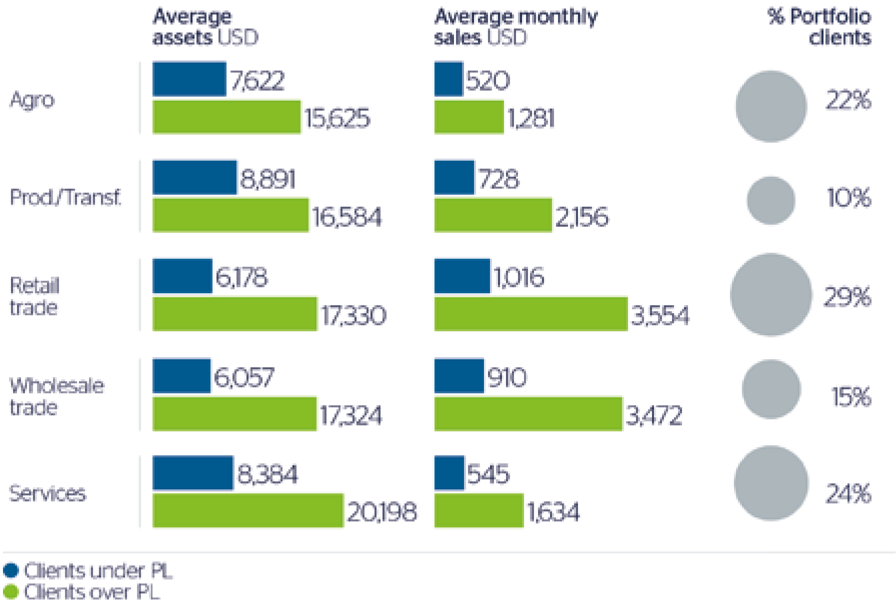
Profile of their businesses

- Financiera Confianza serves clients from a wide cross-section of sectors. The most popular are in Retail trade (29%) and Services (24%).

- Women clients served by the institution mainly carry out their productive activity selling foodstuffs, drinks and tobacco (26%), or clothes and textile products (9%).

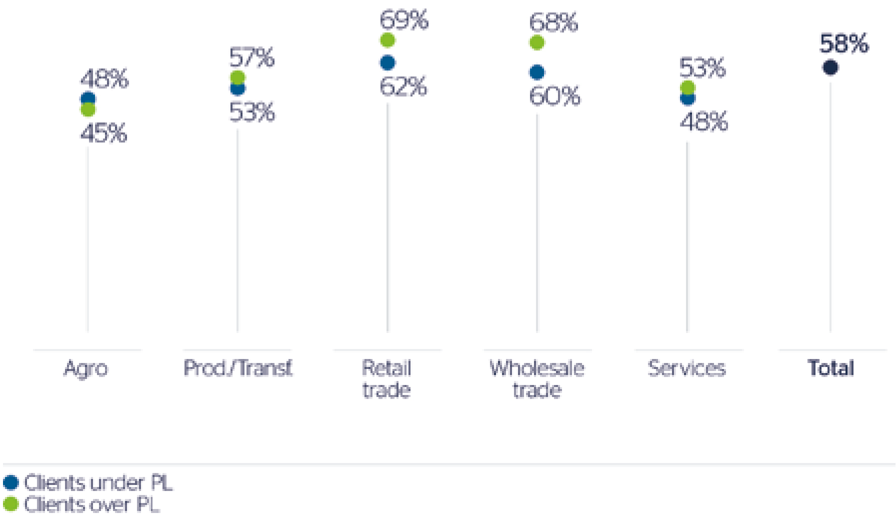
- Entrepreneurs in the Services sector show a greater capacity to accumulate assets compared with other sectors, with an average value of nearly USD 20,198 for *non-poor* clients and of USD 8,384 for *poor* clients.

8. **Average monthly sales and assets - clients under and over the poverty line (PL)**



Source: Financiera Confianza. BBVAMF calculations.

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



Source: Financiera Confianza. BBVAMF calculations.

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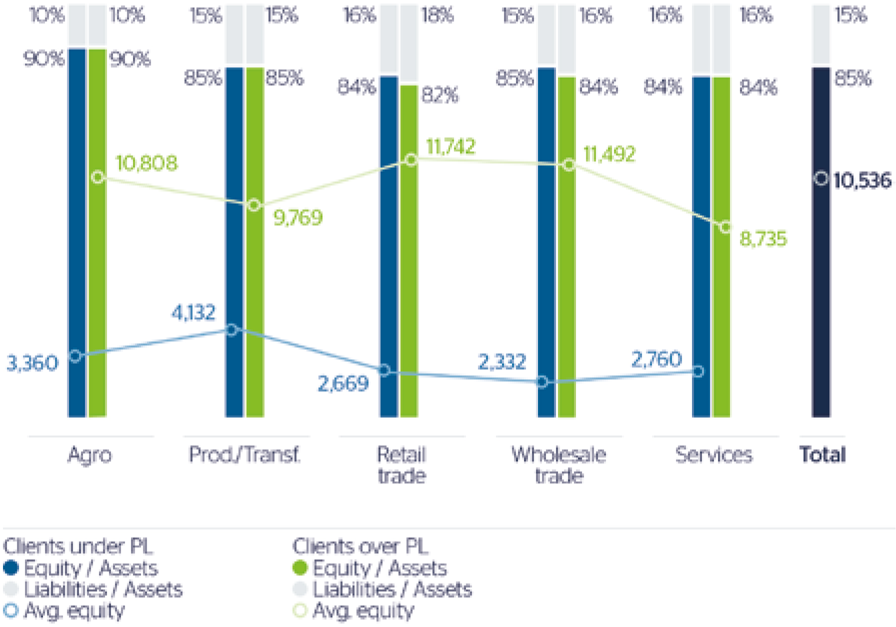
6. New clients (no previous loans) signing up during the year. 'Total' shows the number of clients current at 12.31.2017. **7.** New clients (no previous loans) signing up during the year. 'Total' shows the sum of the participation of the segments analyzed, calculated over total new clients served in 2017. 'Remaining' shows the participation of segments not included in the table, calculated over total new clients served during 2017. **8.** 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. Clients current at 12.31.2017. **9.** Average sales in each sector, calculated as the average of each client's ratio. Segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. Clients current at 12.31.2017.

1. Our clients

- When costs are analyzed as a proportion of sales in our clients' businesses, according to their level of *vulnerability*, we see that only in the Agro sector do clients with income under the PL need, on average, a greater proportion of sales to run their operations. The Retail trade sector for *non-poor* clients is the least efficient, with costs making up 69% of sales (*see graph 9*).

- The balance sheet by sector shows our clients' average leverage. The Agro sector, because of idiosyncratic characteristics and its seasonal nature, requires lower average investment over the year. Here microfinance offers a solution.

10. Assets, liabilities and equity, by sector - clients under and over the poverty line (PL)



Source: Financiera Confianza. BBVAMF calculations.

10. Data on the assets, liabilities and equity, together with their ratios, for each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. The loan granted by the institution is not included in liabilities. Covers clients current at 12.31.2017.

Where our clients are

- Financiera Confianza has a footprint in every province in the country, with a total of 153 branch offices and an extensive network of service points, reaching some of the poorest spots in the north of the country, where it has historically had a significant presence, such as Cajamarca, Amazonas and Loreto.

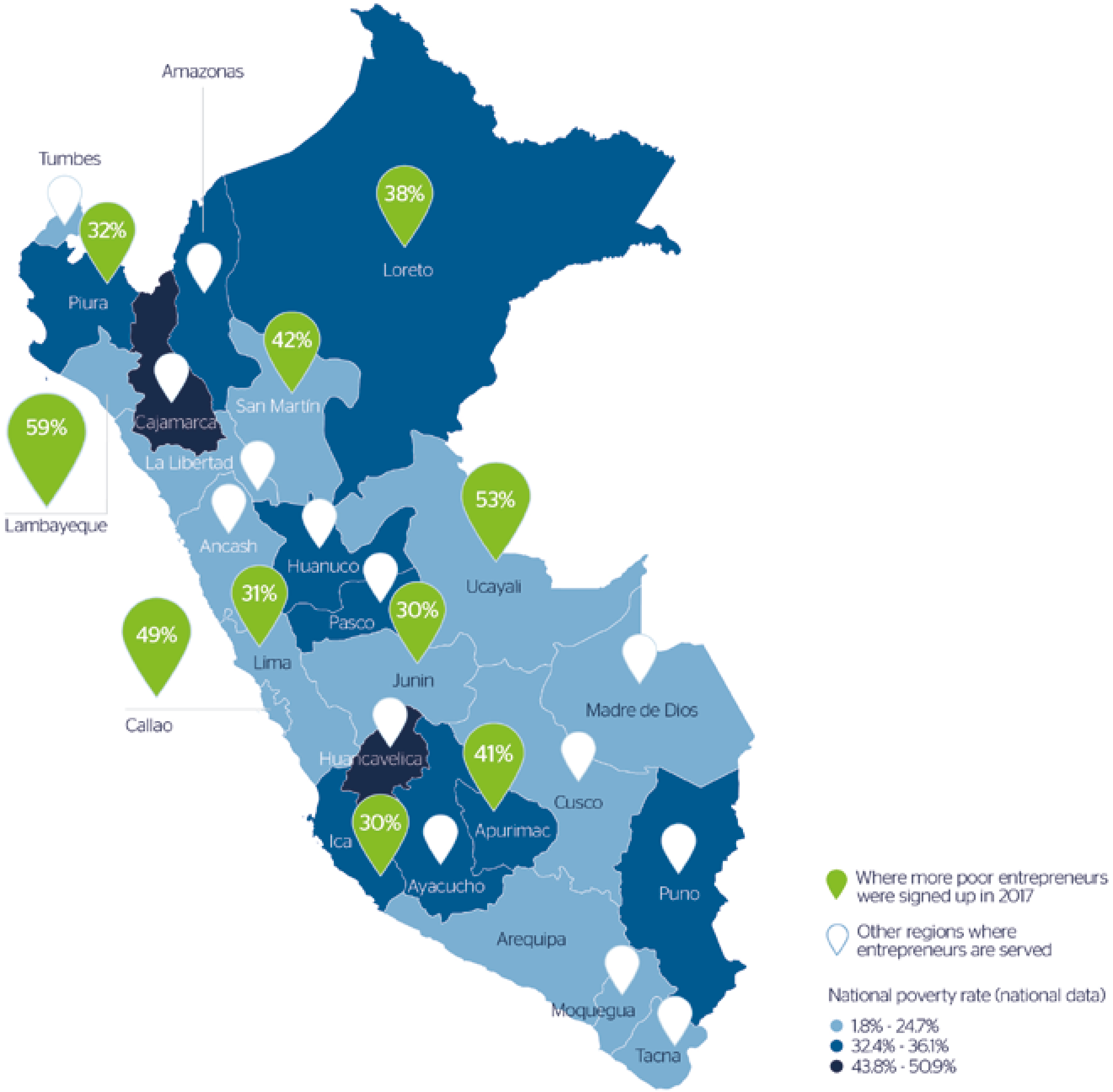
- The effort we make shows in the service to new poor clients over the course of 2017. The regions of Callao (49%), Ucayali (53%), San Martín (42%) and Loreto (38%) report the best indicators. We should point out that in areas of high population density, such as Callao, we serve more poor clients than our average for other regions, because of this very density. In addition, these are the areas where the competition is stronger.

- In the south of Peru, where the national poverty rate is also high, we face a lot of competition, particularly from rural Savings & Loan associations with which clients may feel a greater cultural affinity.

- Agricultural clients, who are located in rural areas with a high rate of national poverty, are not served by most of the financial and micro-finance sector because they are high risk. These are Financiera Confianza's target audience. Even though they are not classified as *poor*, according to the institution's criteria, they account for 22% of all credit clients.

Financiera Confianza serves vulnerable clients in remote rural areas that lack access to essential services

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


Amazonas
Tumbes
32%
38%
Loreto
Piura
42%
59%
San Martín
Cajamarca
La Libertad
53%
Lambayeque
Ancash
Huanuco
31%
Ucayali
30%
Pasco
49%
Lima
Junin
Madre de Dios
Callao
Huancavelica
41%
Cusco
30%
Apurimac
Ica
Ayacucho
Puno
Arequipa
Moquegua
Tacna
Where more poor entrepreneurs were signed up in 2017
Other regions where entrepreneurs are served
National poverty rate (national data)
● 1.8% - 24.7%
● 32.4% - 36.1%
● 43.8% - 50.9%

Source: Financiera Confianza. BBVAMF calculations.

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11. Proportion of poor households by regions and district (2016). INEI. The 10 regions with the highest percentage of *poor* new clients served during 2017 are shown.

2. Our clients' development

SDGs impacted

Growth of their businesses

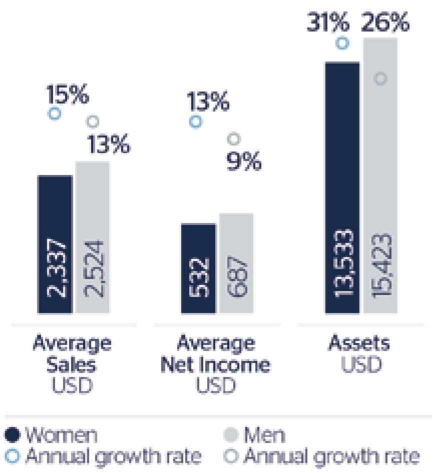
- Financiera Confianza's clients report positive average growth in their assets, sales and monthly net incomes, particularly women (13% annual growth of their monthly net incomes, reaching USD 532).

- Women's businesses, in absolute terms, have lower assets than men's, which results in higher growth rates (in sales, assets and net incomes).

- The sectors with the highest average growth rates in net incomes are Retail trade (13.5%) and Wholesale trade (11.6%). The Agro sector, with an annual rate of 6.5%, is the lowest of all.

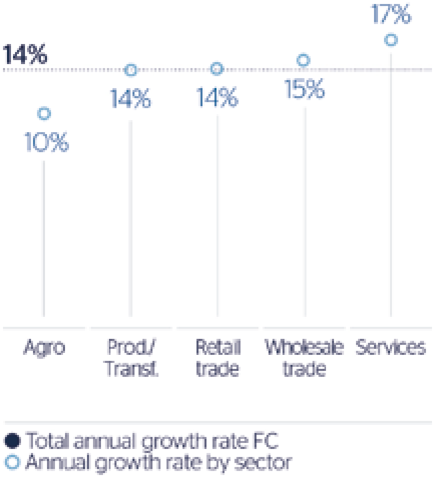
- In the asset variable, the Trade and Production/transformation sectors, have average annual growth of 30%.

12. **Avg. growth rates of monthly sales, net income and assets, by gender**



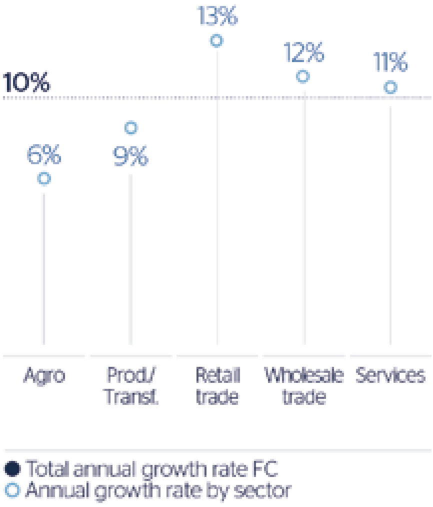
Source: Financiera Confianza. BBVAMF calculations.

13. **Avg. growth rates of monthly sales, by sector**



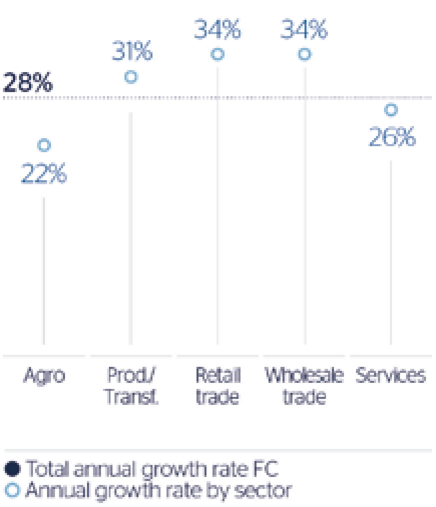
Source: Financiera Confianza. BBVAMF calculations.

14. **Avg. growth rates of monthly net income, by sector**



Source: Financiera Confianza. BBVAMF calculations.

15. **Avg. growth rates of assets, by sector**



Source: Financiera Confianza. BBVAMF calculations.

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12. Clients current at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. **13, 14 & 15.** Clients current at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector.

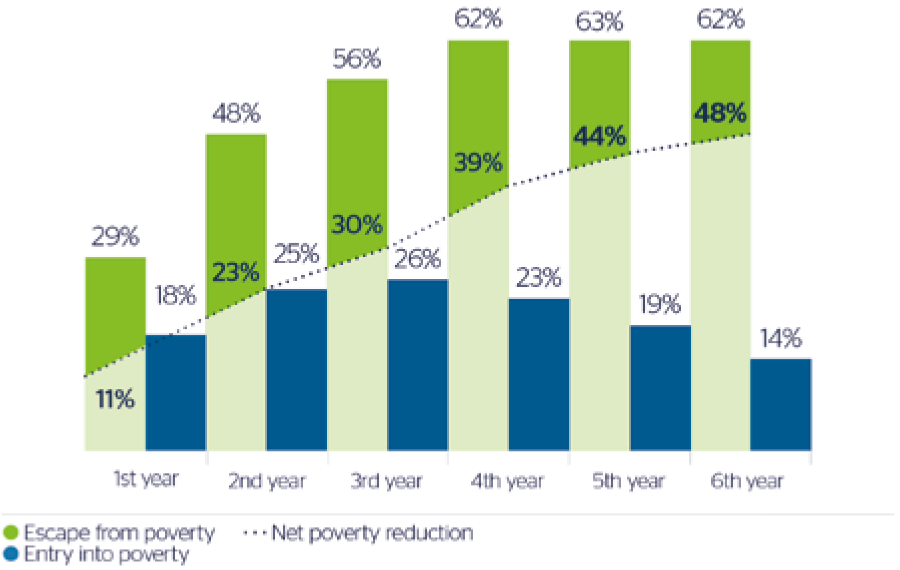
Escaping poverty

- The longer that *poor* clients continue with the institution, the more the percentage of those succeeding in overcoming poverty grows. In the first year, 29% of clients manage to improve their situation at the outset, escaping from *poverty*; after four years, 62% have done so.

- The segment in *poverty* falls by 23% after two years, mainly thanks to clients' improved returns. Poverty in Peru fell by 2.4 percentage points between 2014 and 2017 and is expected to continue falling. Financiera Confianza's clients are participating in this improvement too.

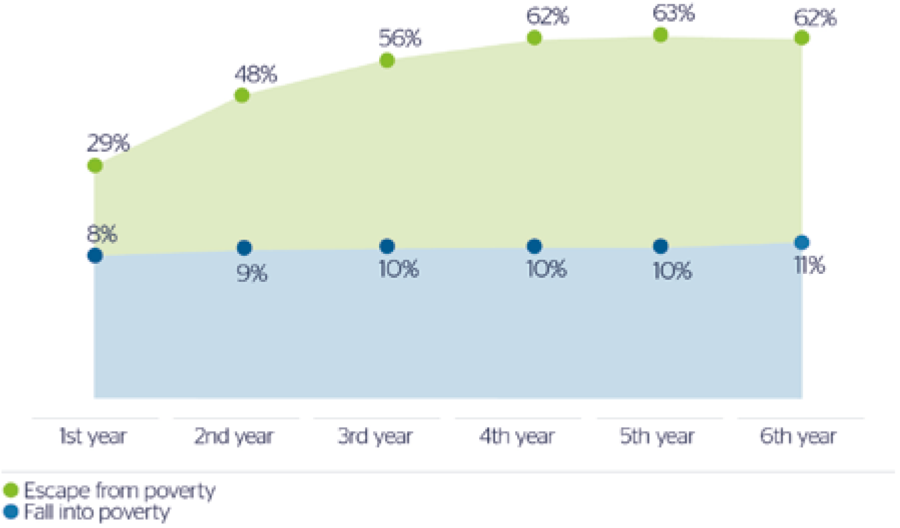
- There is a group of *non-poor* clients that suffer mishaps that trigger their fall back into *poverty*: around 10% of *non-poor* clients in each period falls into *poverty*.

16. Net poverty variation



Source: Financiera Confianza. BBVAMF calculations.

17. Clients falling into and escaping poverty



Source: Financiera Confianza. BBVAMF calculations.

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16. Clients current at some point in 2017 whose data was updated in the last 12 months of their relationship with the institution. 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 outset, who have climbed above the poverty line, as a percentage of all those in poverty 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. **17.** Clients current at some point in 2017 were recorded and their data updated in the final 12 months of their relationship with the institution. 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 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 *others*) at the outset, who have fallen into poverty, divided by the number of *non-poor* clients at the outset.

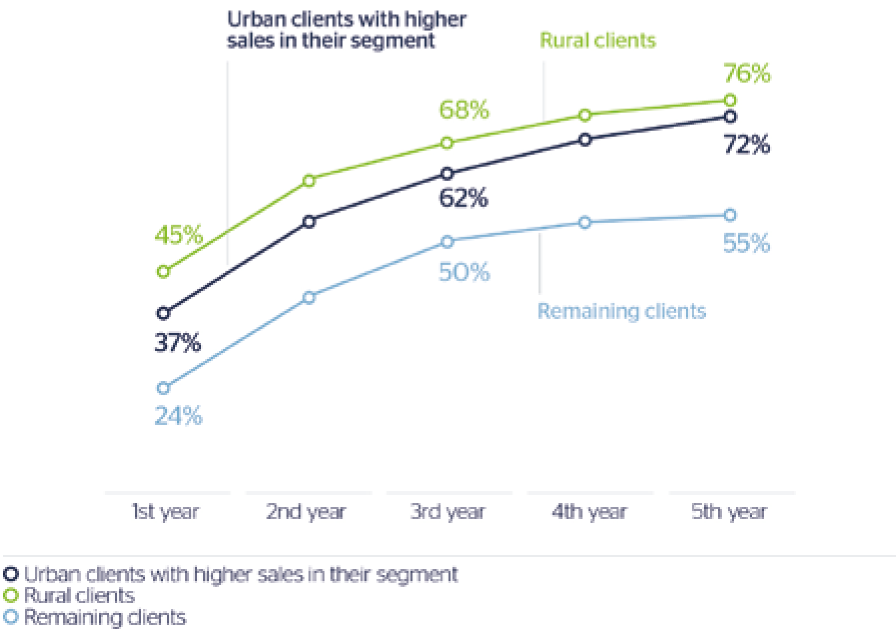
2. Our clients' development

- As anticipated in the 2016 report and after a multi-variate analysis, we saw that it was the rural clients who recorded the best performance (whether their situation at the outset was one of *extreme poverty* or of *poverty*) for a number of reasons. It is likely that the lower cost of living, the lower competition and the possibility of choosing clients with a more entrepreneurial outlook (given the limited access to financial resources) contributes to a greater impact on client performance, and thus, the escape from *poverty* indicator.

- Urban clients with higher sales also stand out as the segment with the second highest probability of overcoming the PL. In more competitive urban environments, the capacity to generate comparatively higher incomes is a sign of more effective business management; these clients therefore perform better than the average for Financiera Confianza's *poor* clients.

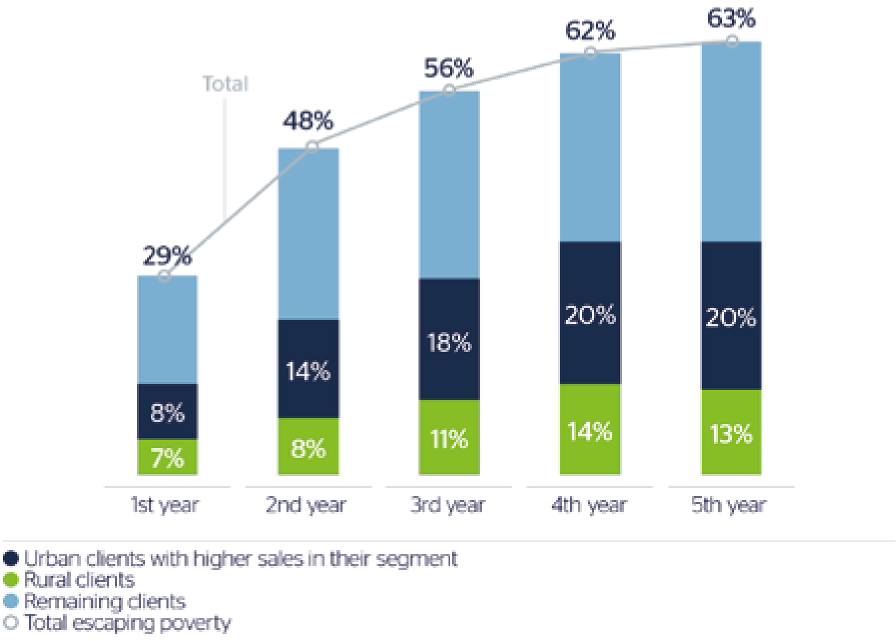
- We should note that clients do not perform differently by age, gender or civil status; the determining factors are the environment, the features of the microenterprise and the financial products and services they are using. However, in the case of *poor* clients, a higher educational level can impact on a greater likelihood of escaping poverty.

18. Clients escaping poverty, by best performing segments



Source: Financiera Confianza. BBVAMF calculations.

19. Distribution of clients escaping poverty



Source: Financiera Confianza. BBVAMF calculations.

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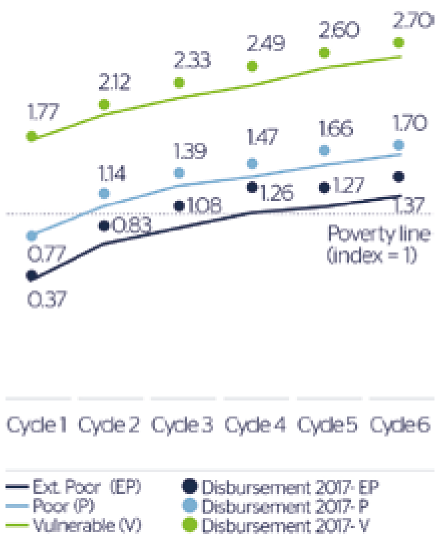
18 & 19. Clients current at some point in 2017 who have updated their data during the last 12 months. Clients who have defaulted are excluded from the "escaping poverty" category. % of clients by segment. **20.** For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* during the first credit and shows the progress of net income in each credit cycle, relative to each country's official poverty line. Relative *per capita* monthly net income takes the value of one when it is equal to the poverty line.

- Financiera Confianza's *poor* clients only need two loan cycles to succeed in overcoming the PL, whereas clients in *extreme poverty* need three. When we look at the *p.c.* net monthly incomes of clients served over the year, we see that these clients record better *p.c.* monthly returns at each renewal.

- Once again, sustained growth levels are consolidated over time: clients in *extreme poverty* can increase their average *p.c.* net income by 77%, and those in *poverty* can do so by 32% when they reach the fourth cycle (*see graph 21*). This shows sustained growth rates at each cycle, although they are higher when *vulnerability* is greater.

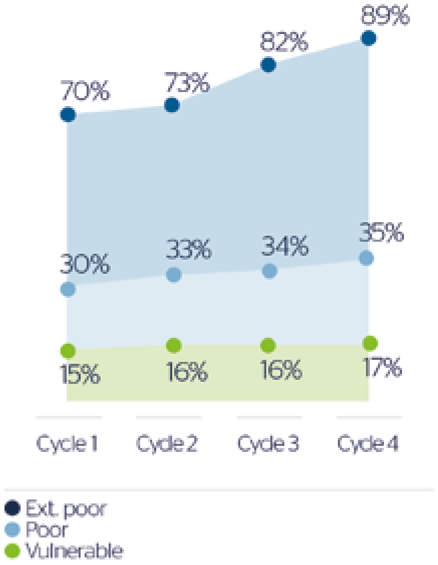
- Income instability is very much a part of our clients' experience; many will grow but then suffer periods of setback. When we analyze clients who have taken out five loans or more, we note: 69% of *poor* clients succeed in climbing out of poverty, 46% permanently, while 23% will do so temporarily (crossing the poverty line at least twice).

20. Net income relative to the PL



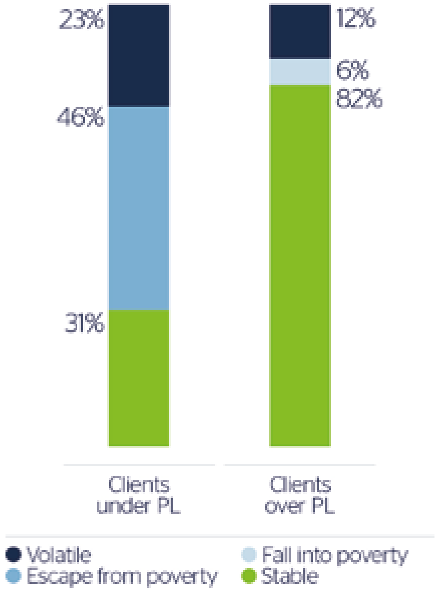
Source: Financiera Confianza. BBVAMF calculations.

21. Average net income growth relative to the PL



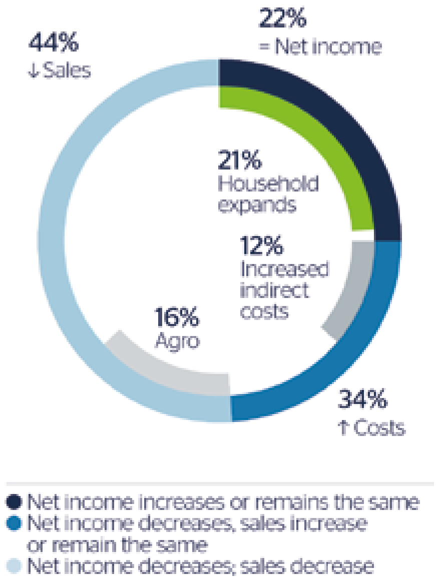
Source: Financiera Confianza. BBVAMF calculations.

22. Net income volatility relative to the poverty line



Source: Financiera Confianza. BBVAMF calculations.

23. Clients falling into poverty



Source: Financiera Confianza. BBVAMF calculations.

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21. For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of vulnerability at each credit cycle. **22.** Clients served between 2011 and 12.31.17 who have had at least five disbursements. The classification by *vulnerability* considers their situation at the first loan and is segmented by under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*). • Volatile: client who crosses the poverty line at least twice. • Escape from poverty: client who escapes poverty and doesn't fall back in. • Fall into poverty: client enters poverty in one cycle and does not escape it again. • Stable: client who remains *poor* or *non-poor* throughout the five disbursement cycles. **23.** Clients who have been current at some point in 2017 and have updated their data in their last 12 months with the institution. Shows those clients who at the outset were classified as *non-poor* and who are currently classified under the poverty line (PL).

2. Our clients' development

- When it comes to clients who at the outset were *non-poor*, 6% will fall into *poverty* and 12% will do so temporarily. This demonstrates the importance, not only of achieving income above the PL, but also of stabilizing it, so financial products must be developed to support this (*see graph 22*).

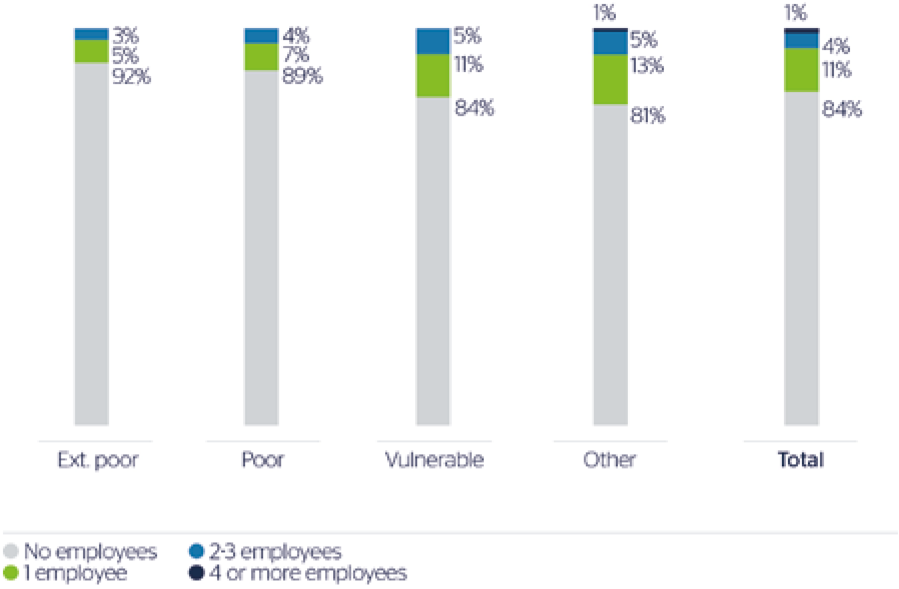
- Of clients falling into *poverty* in 2017, 44% do so because of a reduction in their sales, principally in the Agro sector (16%), 34% because of an increase in their costs, and the remaining 22% mainly as a result of an increase in the number of people in the household (*see graph 23*).

Indirect impact

- 16% of Financiera Confianza's clients have generated direct employment and taken on at least one employee, with the corresponding greater impact on the communities in which they work.

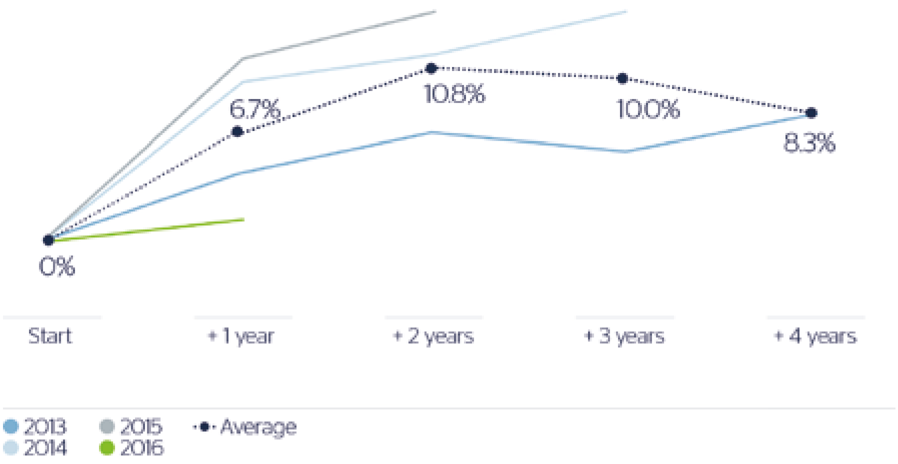
- Some of client net incomes is spent on improving their current housing situation; 10% will have made improvements after three years.

24. **Micro-enterprise employee breakdown**



Source: Financiera Confianza. BBVAMF calculations.

25. **Client improvement in housing (by cohort)**



Source: Financiera Confianza. BBVAMF calculations.

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24. Number of employees working for clients current at 12.31.2017. **25.** Proportion of clients current as of 12.31.2017 in each cohort that has improved their living arrangements (moving from parents' to a rented or own home, moving from rented to own home), increased the nº of bedrooms, installed running water, or improved the building materials. Averages from cohorts 2013-2016 are shown.

3. Relationships with clients

SDGs impacted

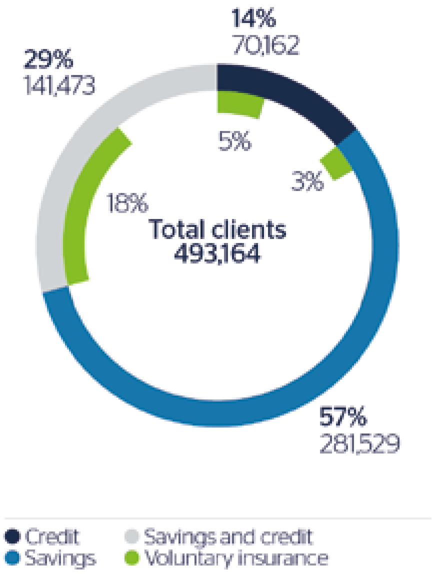
- 43% of Financiera Confianza's clients have credit products, 31% have also taken out voluntary insurance. Clients require an increasingly wide range of products, and Financiera Confianza seeks to provide them.

Relationship with our credit clients

- Financiera Confianza serves new clients with increasingly low average monthly sales, a sign of its interest in serving clients who are more vulnerable. The installment payments on monthly sales do not vary substantially over time, closing 2017 at 10.2%.

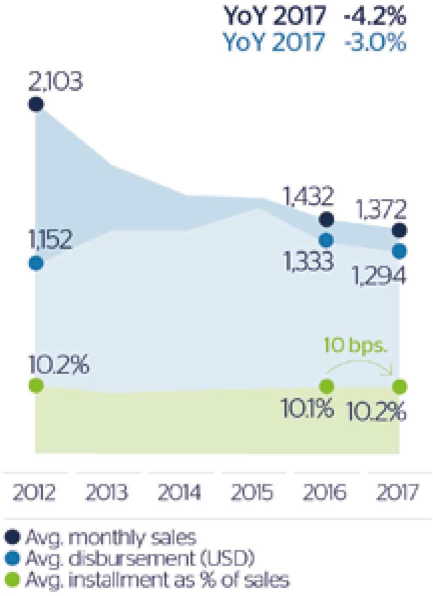
- Disbursements of clients who renew their loans have been growing year on year, at a rate close to 16% annually, reaching, on average, USD 2,769 after five years.

26. Client linkage by product type



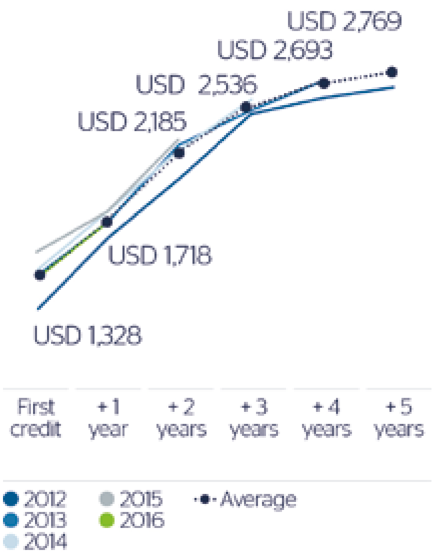
Source: Financiera Confianza. BBVAMF calculations.

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



Source: Financiera Confianza. BBVAMF calculations.

28. Average disbursement per transaction (by cohort)



Source: Financiera Confianza. BBVAMF calculations.

29. Credit client retention and recurrence

Retention	
Start	100%
+1 year	57%
+2 years	32%
+3 years	21%
+4 years	15%
+5 years	11%

Recurrence		Distance (days)
Cycle 1	100%	0
Cycle 2	57%	296
Cycle 3	36%	282
Cycle 4	24%	261
Cycle 5	16%	240
Cycle 6 or +	11%	218

Source: Financiera Confianza. BBVAMF calculations.

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26. Clients current at 12.31.2017. Savings clients with a balance greater than PEN 1 or with account movements in the previous 9 months, are considered throughout the report. **27.** 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. **28.** Change in the average disbursement per transaction by length of time since the client was 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. **29.** 'Retention': Percentage of credit 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.

3. Relationships with clients

- The most important factor in achieving client development is fostering long-term relationships. Financiera Confianza clients, in 57% of cases, continue with the institution after the first year and 57% take out a second credit, building a relationship in which Financiera Confianza is positioned as a strategic partner (*see table 29*).

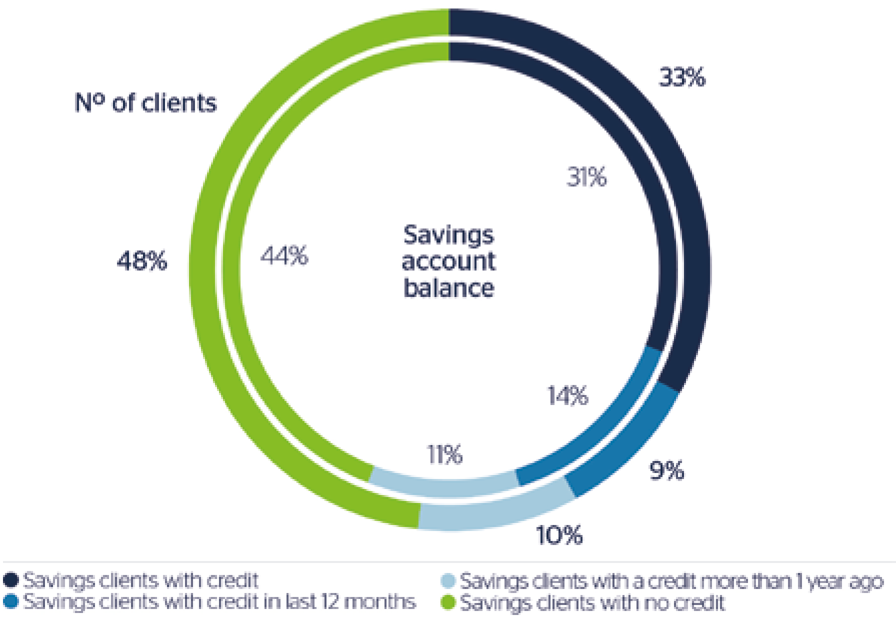
Relationship with our savings clients

- The importance of client capitalization in their overall development makes savings a critical variable in reducing their income instability.

- In 2017 Financiera Confianza topped 420,000 savings clients, 6.8% up on the year before, keeping growth in balances similar to other years. With 10,000 deposit clients it is also looking to offer higher-segment clients (with bigger savings balances) a greater variety of savings products.

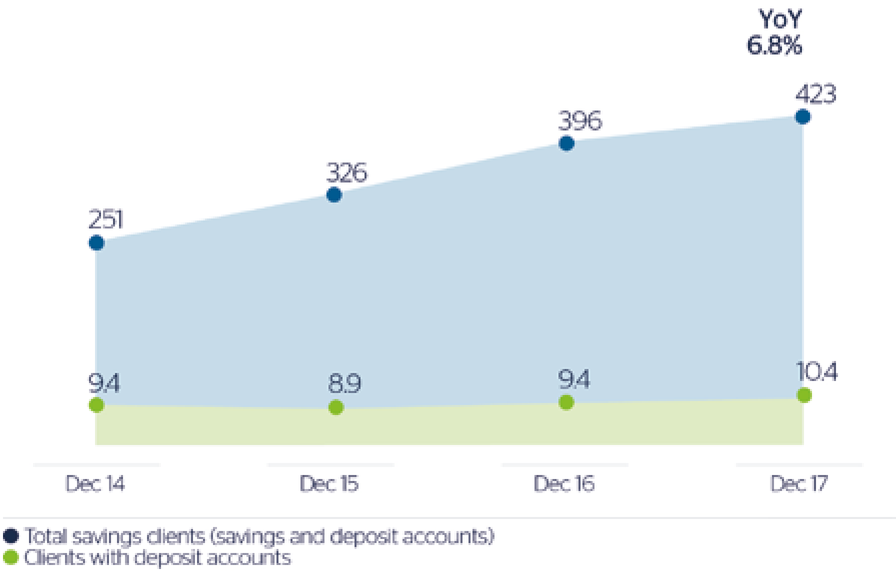
- In Financiera Confianza 48% of clients have a current savings account as their only product and the weight in the institution's total balance is 44%. Clients who have a savings product and a credit account for 33%, and their balances make up 31% of Financiera Confianza's total savings balances.

30. **Linkage of savings clients**



Source: Financiera Confianza. BBVAMF calculations.

31. **Clients with savings and deposit accounts ('000)**



Source: Financiera Confianza. BBVAMF calculations.

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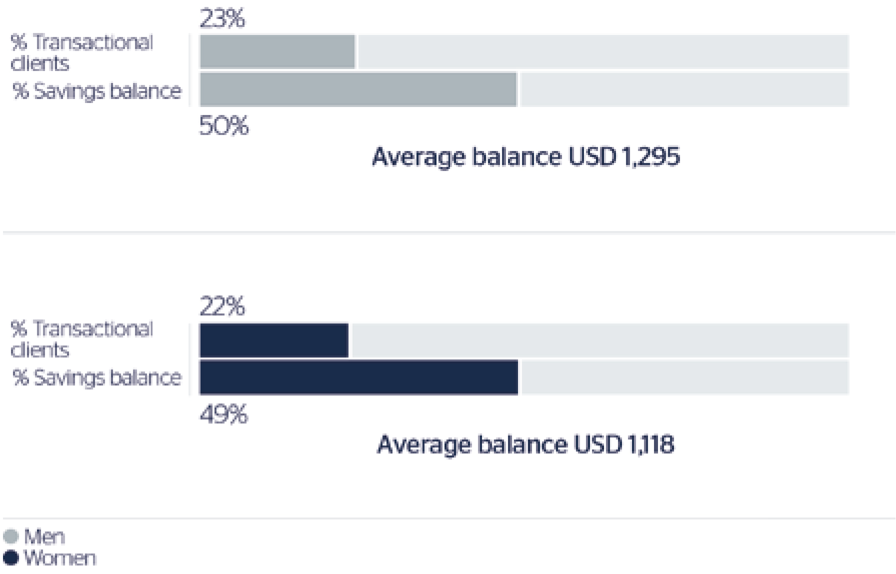
30. Clients and savings balances at 12.31.2017.
31. Clients with savings products (savings accounts & deposits) on each date.

- The microfinance sector is stepping up to the challenge of turning saving accounts into transactional products. 23% of these clients have had over three movements in the last three months, which is a good ratio within the sector.

- Clients behave in similar ways, irrespective of gender, in terms of savings transactions: 23% of men and 22% of women have made more than three movements in savings accounts in the previous three months, and women's balances account for 49% of total balances by gender. Men have higher average balances, at USD 1,295, higher than women's by 16%.

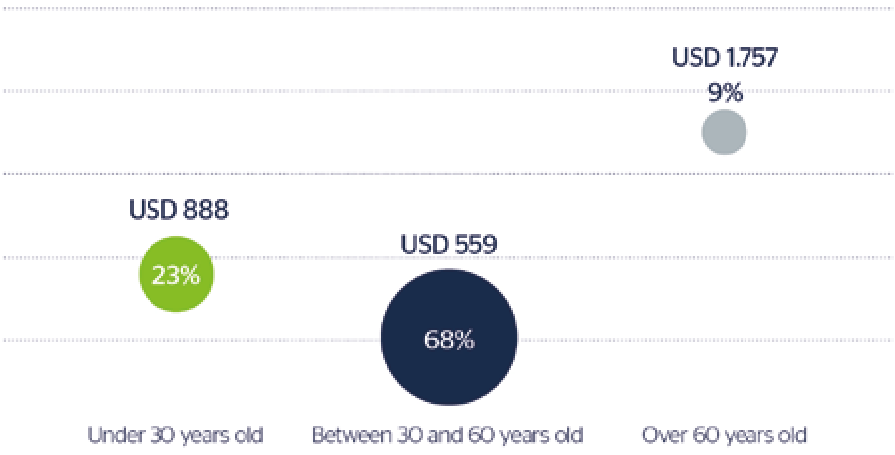
- As the years go by, savings balances tend to be higher, which is visible in the case of clients over 60 who, on average, have savings of USD 1,757. Clients aged between 30 and 60 have lower savings than young people, which would seem to indicate that their family expenses are a burden, or else that they are saving with other, non-financial assets.

32. Transaction figures, by gender



Source: Financiera Confianza. BBVAMF calculations.

33. Savings account balance, by segment



Source: Financiera Confianza. BBVAMF calculations.

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32. Clients who conduct transactions (nº of movements in the last three months), excl. administrative movements (interest, fees) in their overdrawn balances to 12.31.2017. **33.** Savings clients with balances at 12.31.2017. Percentages represent the number of clients in each segment.

Macroeconomic analysis

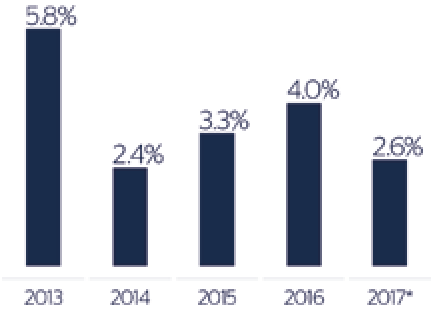
Peru

Sharp supply-side shocks have affected economic performance, which has shown weak domestic demand in a low inflationary context, while the informal economy has a heavy weight in employment. Poverty reduction has slowed, as has the improvement in income distribution.

Economic context

Economic growth: weak internal demand

GDP growth (var)



Source: Central bank (Banco de la Reserva del Perú).
* BBVAMF Research estimates.

The country suffered strong negative shocks, most of which were associated with the coastal El Niño climate phenomenon, which conditioned the economy's behavior. Activity grew by 2.6% in 2017, fundamentally because of good performance in the primary sectors, which expanded by 3%, while other sectors were up by 2.5%[1].

The first semester was conditioned by a contraction in investment and public consumption, which caused internal demand to shrink by 0.4%. Over that period the economy still grew by 2.3%, because of the 13.4% jump in exports.

The economy has been recovering since the setback suffered from the impact of the coastal El Niño, growing in the second semester by 3.3%, with a recovery of internal demand, which expanded by 2.5%. The recovery of private investment after 14 consecutive trimesters of contraction, occurred thanks to higher business confidence and public spending growth.

The highest growing sector over the year was Fisheries, which expanded by 4.4%, despite the impact of the recent cooling of the sea, which affected anchovy stocks, preventing the development of the adult fish; for this reason fishing was suspended in November and December, triggering a 74% drop in the sector in the second semester.

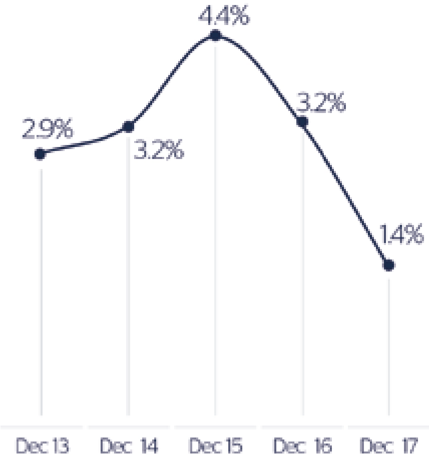
The Construction sector, however, was up by 3.6%, despite the 4.2% fall in the first semester, bouncing back in the second half, taking most public and private investment, and growing by 11% in the second half.

The Mining and hydrocarbon sector posted a 3.5% rise, less than in previous years, because of lower copper production, mainly in the Las Bambas and Cerro Verde mines which reached their optimal production levels in 2016. Services, meanwhile, expanded by 3.5%.

Manufacturing shrank by 0.5%, a consequence of the deterioration in the production of goods for consumables, lower production of sugar because of the coastal El Niño, and of fishmeal and oil as a result of the small anchovy catch. The sector fell by 3.3% in the second half.

Inflation: the lowest for the last seven years

Inflation (CPI var)



Source: Central bank.

Inflation in 2017, at a year-on-year rate of 1.4%, was the lowest in the last seven years. The prices of some foodstuffs, which had risen for a short time, taking inflation to 4% in March, started falling again, mainly because of the disappearance of the factors that caused the production of agricultural products to drop, such as the drought at the end of 2016 and the coastal El Niño phenomenon that affected the first trimester of the year.

The appreciation of the exchange rate and the weakness of internal demand are two other factors that have had an impact, due to the absence of inflationary demand pressure and moderate import inflation. The rate of inflation,

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1. Conducted to the end of November 2017. All estimates by BBVAMF Research.

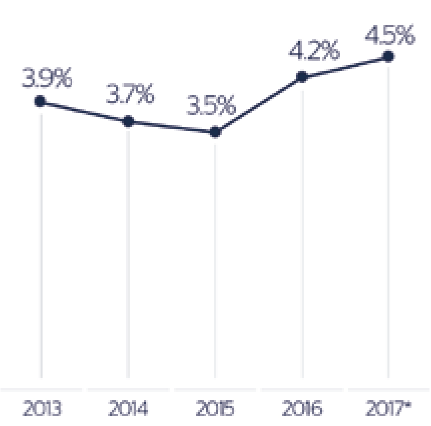
Economic context

excluding data on foodstuffs and energy, was 2.1%, within the Central bank's target range. In this context, this institution has made four reductions to the monetary policy rate, closing the year at 3.25%, with enough leeway remaining for further reductions. The reduction of the benchmark interest rate is consistent with the reversal of supply-side factors, which have positioned inflation in the lower band of the target rate.

In the first semester both investment and public consumption shrank as a result of the coastal El Niño phenomenon

Labor market: 72% working in the informal economy

Unemployment rates (% of the workforce)



Source: National Statistics Institute (INEI).
* BBVAMF Research estimates.

In 2017, the national unemployment rate was 4.5%, up by 0.3 percentage point (p.p) from the year before. In the decade from 2007 to 2017, around 250,000 new jobs were generated. The annual rate of job creation has slowed in the last two years, falling from 325,000 jobs a year between 2007 and 2011, to around 270,000 new jobs a year between 2016 and 2017, period in which the occupation rate was 69%.

340,000 jobs were created in urban areas, whereas rural zones have lost around 80,000; despite this, urban unemployment came to 5.3%, with the lowest urban unemployment rates in the provinces of Ucayali (2.4%), San Martín (2.4%), Ica (2.5%) and Amazonas (2.9%). Around 27% of all jobs were generated in Lima in 2017, but even so, the unemployment rate in the region was 6.9%, higher by 0.2 (p.p.) than the rate in 2016. In 2017, the female Economically Active Population (EAP) was more dynamic, growing by 2.6%, while male EAP increased by 0.8%.

In 2017, 72% of workers had an "informal" occupation, in other words, seven out of every 10 people in the occupied EAP. Around 55% of the total occupied EAP worked in the informal economy, whereas 17% did so in the formal sector, but on an informal basis. The provinces reporting the highest rates of informal employment were: Huancavelica (91%), Apurímac (90%), Cajamarca (88%), Ayacucho (87%) and Huánuco (86%).

Informal employment among women was 74%, a rate that was six p.p. lower in the case of men, at 68%. This rate was much higher in the rural environment, at 95%, than in urban settings, where it posted at 64%. The average monthly la-

Among women the rate of informal employment was recorded at 74%, whereas among men it was 6% lower

bor income of a worker with a formal job was 2.6 times higher than that of a worker with an informal occupation.

92% of workers with primary education or less work in the informal sector, whereas 52% of professional workers with non-university higher education and 38% of those with university-level education, carried out their activities in the informal sector. Looking at a broader indicator, the annual rate of underemployment was 44%; of this, the rate of underemployment in terms of income was 41%, and the rate of underemployment in terms of hours worked was 3%.

Financial inclusion: striking differences by area

According to official figures, in 2016, 32% of the adult population possessed a credit product, up from 26% in 2011, which means that in the last five years 1.5 million borrowers have joined the financial system, by December 2016 topping 6.3 million natural persons with a loan[2].

Over the same period, nearly 483,000 micro and small businesspeople joined the financial system, with this segment accounting for around 2.2 million borrowers by the end of 2016. According to the survey conducted by the Banking, Insurance & Pension Fund Management Authority (SBS), around 66% of the country's population is saving inside and/or outside the financial system. 32% of the savings population does so within the financial system. Although there is more money being saved exclusively outside the financial system in rural areas, there is also a significant amount in urban areas[3].

Contributions to the pension system involve signing up for an obligatory savings scheme. 25% of urban dwellers have one, whereas in the countryside this percentage is a mere 4%, due to the greater extent of informal employment compared to towns and cities.

Nationwide, 60% of the population saves because they want to, both inside and outside the financial system, which breaks down into 57% in urban areas and 71% in rural ones. Voluntary saving is mainly outside the financial system, representing 68% of savers, while only 18% keep all their savings in the financial system. Among country dwellers who save, the amount saved outside the financial system accounts for 92% of the total, whereas in towns and cities it is 59%. Only 8% of the rural population that saves uses the financial system.

53% of the population in the metropolitan area of Lima and Callao that saves uses the services of financial institutions. In small cities this proportion drops to 22%, whereas 78% saves outside the financial system. Transactional costs are a key determinant in this difference between urban and rural zones.

Another important issue is the time needed to get to the financial institution. Despite recent progress, customer service point coverage in rural areas and small urban populations is much lower. Whereas in rural areas it takes an average of two hours to reach the nearest branch office, an urban dweller needs an average of just 20 minutes. There are significant disparities within the urban environment too, since inhabitants of small cities need an average of 50 minutes to reach their nearest office, whereas for those living in the metropolitan area of Lima and Callao, or other large cities, only take between 10 and 15 minutes.

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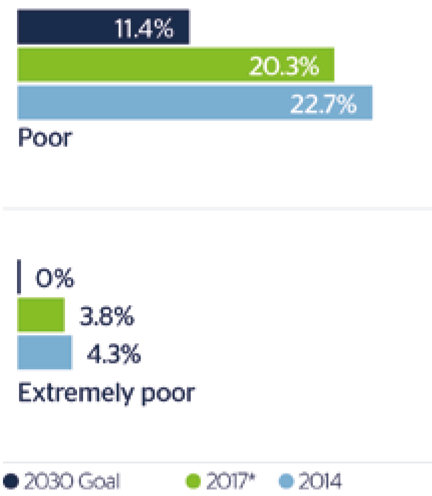
2. Financial inclusion indicators to December 2016: Peru's Banking, Insurance & Pension Fund Management Authority (SBS). **3**. 2016 results: National Survey on the Demand for Financial Services & Level of Financial Understanding in Peru. Peru's Banking, Insurance & Pension Fund Management Authority (SBS).

Social environment

Poverty: poverty reduction slows down

Poverty (% of the population)



Source: National Statistics Institute (INEI).
* BBVAMF Research estimates, UN.

In 2017, 20.3% of the population was in a situation of monetary poverty, which represented a 2.4% drop from 2014; in other words, 534,000 people escaped poverty, leaving 6.46 million still in this predicament. Between 2006 and 2017, poverty fell by 10p.p., that is, 2.63 million people escaped poverty[4].

Poverty in the rural environment reached 43.4% of the population, a 4.6p.p. reduction from 2014; in urban areas it affected 13.8%, a fall of 1.5p.p. Higher levels of *poverty* remain in: the rural Sierra region, at 47.7%, the rural Selva region, at 39.4%, and the rural Costa region, with a poverty rate of 29%.

At the end of 2017, around 3.8% of the population found itself in conditions of extreme poverty, practically unchanged since 2016. This figure has fallen by 0.5p.p. compared to 2014, which means that 115,000 people have escaped poverty. Between 2006 and 2017, extreme poverty shrank by 10%, allowing 2.63 million people to better their situations.

In the rural environment extreme poverty hit 13.4% of the population; in towns and cities it was only 1%. The region suffering from the highest rate of extreme poverty is the province of Cajamarca, followed by Amazonas, Ayacucho and Huancavelica, while those with the least extreme poverty are the provinces of Arequipa, Ica, Madre de Dios, Moquegua, Callao, Lima and Tacna.

In general terms, poverty reduction was underpinned by better economic performance and the impact of this on the informal sector. Between 2006 and 2017, GDP grew at an average annual rate of 5.5%, at the same time as the proportion of informal employment dropped from 84% to 72%. This differentiated change in economic activity could also be seen in the behavior of informal employment in the formal sector itself, which has edged down from 18.5% in 2006 to 17% in 2017. Over this period the occupied EAP expanded by over three million people in urban areas, while in rural areas it fell by around 500,000 workers. This shows that the increase in the supply of goods and services has provided new job positions predominantly in formal sectors. At around two thirds, this increase was reflected in the wages paid by large and medium-sized companies in particular.

58% of the poor work in Agriculture, Fishing and Mining, 12% are in Services, 11% in Trade, and the remaining 19% in other sectors. The poverty gap, defined as the proportion of a poor person's shortfall between their income and the poverty line, was 5.1%. Between 2014 and 2017 the poverty gap closed by 0.7p.p. Between 2006 and 2017 this fell by 12.6%, indicating that the *poor*, even if they do not escape from poverty, have noticeably improved their consumption; in other words, the poor are increasingly less poor.

The severity of poverty, which measures the differences in spending among the *poor*, has tapered over time, standing currently at 1.7%: it has shaved off 0.5p.p. since 2014, whereas between 2006 and 2017 it dropped by 6.7p.p.

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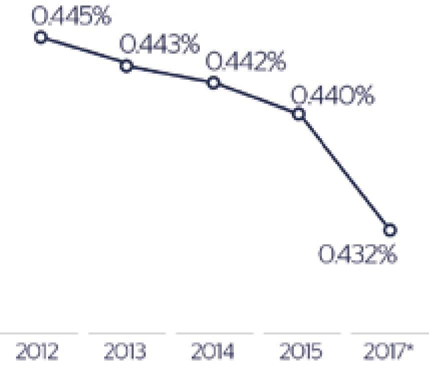
4. All estimates by BBVAMF Research. **5**. National Statistics Institute INEI.

Reduction in inequality

Inequality (Gini ratio)



Source: National Statistics Institute.
* BBVAMF estimates.

In 2017, income distribution inequality in Peru, measured using the Gini ratio (that takes values between 0 and 1, ranging from absolute equality to maximum inequality), stood at 0.432, a slight improvement over 2016, when it was 0.440.

By this estimate, Peru's inequality ratio has fallen by just 0.011 between 2014 and 2017, which is a tapering of the trend, given that between 2002 and 2008 inequality fell by 2.2% and by 1.7% from 2008 to 2017.

Breaking the indicator down by urban vs. rural and also by region, we see that the Gini ratio has been stable over the last three years. Inequality in the rural environment and particularly in rural Selva is greater than in towns and cities. If we analyze long-term results (2006-2017), we see that inequality is falling nationally and in nearly all regions, except in rural Costa and rural Selva. The greatest fall in inequality is in the metropolitan area of Lima and the urban Sierra, followed by urban Costa and urban Selva.

When we analyze the concentration in the income distribution, we see in 2017 a reduction from 2006 in the participation of the wealthiest quintile, from 52.1% to 48.8% in monetary income, while the poorest quintile now accounts for 6.7% of wealth, up from 5.2%.

> *It takes six times as long to reach the nearest branch office in rural areas, which has a determining effect on their lower financial inclusion*

Other dimensions

18.7% of the country's population lives in households with at least one basic need that is unmet[5]. Over the last five years, this figure has shrunk by 4.6p.p.; and in the last 10 years, it has fallen by 12.8p.p. 74.8% of poor households have access to the public water network. 41.3% of these households are on the public sewage system. The power network reaches 84.9%, but this is lower than the national average, which is 94.5%.

51.9% of the population that is 15 years old or more and in conditions of poverty has no education or primary education at best. 41.7% of the population in poverty has studied one or more years of secondary education, while 6.4% studied further education.

Schooling attendance rates for girls and boys from three to five years old at playschool were 82.4%, and the net attendance rate of six to eleven-year-olds at primary school was 92.5%. In both dimensions there has been progress since the previous year, apart from attendance by children from three to five in rural areas.

School attendance rates for the 12 to 16 age group was 85.6%, with an 8% gap between urban and rural areas. 13.1% of the population over 15 in a situation of poverty is illiterate, while the national illiteracy rate is 5.9%.

34.3% of the country's citizens suffers from some form of chronic ill-health: 61.1% of the population between 50 and 59, which rises to 74.1% in the population aged 60 or over, in both urban areas (75.3%) and the countryside (70.9%).

2017 Social Performance Report

Measuring what really matters

389,436
Total clients

41%
Rural environment

Dominican Republic

Banco Adopem

67%
Women

USD 142,493,511
Amount disbursed

Banco Adopem promotes the development of vulnerable people and their communities in the Dominican Republic, bringing them into the formal financial system. It has over 1,400 employees throughout the country working to improve Dominicans' living standards, with a network of 74 branch offices and 201 banking agents.

Banco de Ahorro y Crédito Adopem, S.A. (Banco Adopem) is a financial institution that works for vulnerable people through financial inclusion. It is committed to the society of which it forms part and to small entrepreneurs, whom it supports with programs which have a socio-economic impact, in which partnerships with major international organizations also play a leading role. It carries out much labor-intensive field work, in remote areas that are difficult to reach.

Adopem became a bank in 2005, although it has been providing loans for nearly three decades as an NGO. In 2012, it joined the BBVA Microfinance Foundation's group of institutions. Banco Adopem provides tailored financial products and services to small entrepreneurs, 67% of whom are women, wanting to make a go of their micro-enterprise.

Most of the people it serves work in the production and sale of foodstuffs, handcrafted objects, clothing and footwear, or service provision, among others. Adopem relies on the daily dedication of 1,418 employees who are committed to its entrepreneurs' long-term prosperity. Thanks to its footprint of 74 branch offices and 201 banking agents, it contributes to the growth of the most vulnerable sectors of the Dominican Republic.

This microfinance institution is a byword for transparency, compliance, responsibility, service vocation and development. Its Rural Finance & the Environment program [Finanzas Rurales y Medio Ambiente] helps to combat the effects of climate change, encouraging entrepreneurs to start up low-environmental-impact activities and businesses. This initiative also facilitates access to credit to improve the quality of farming businesses from an environmental perspective.

In 2017 Banco Adopem received the Inter-American Award for Financial and Entrepreneurial Innovation given by the Inter-American Development Bank, for its product *Agrocrédito* and its use of technology. Fitch Ratings has confirmed its long-term valuation at AA-(dom) with stable outlook. It has also retained its ALFA MAS (a+) classification from Microrate's international Committee, which reaffirms its excellent positioning in the microfinance sector, at the head of Microrate's ranking in Latin America.

Banco Adopem received the 2017 Inter-American Award for Financial and Entrepreneurial Innovation *given by the Inter-American Development Bank*

Headline figures

Data at December 31st, 2017

Total credit clients	389,436
Nº of disbursements in 2017	194,958
People receiving financial education	16,466
Gross loan portfolio (USD)	129,163,276
Average disbursement in 2017	731
Nº of branch offices	74
Amount disbursed in 2017 (USD)	142,493,511
Deposits & others (USD)	71,437,973
Nº of employees	1,418

Source: Banco Adopem. BBVAMF calculations.

Total clients

389,436

With nearly 400,000 clients and coverage in all provinces throughout the country, Banco Adopem has maintained its position as a major player in the social and economic development of the Dominican Republic. 85% of its over 220,000 credit clients were in *vulnerability* at the end of 2017. Its micro-enterprises, which mainly focus on Trade, grew, in terms of their annual sales and net income rates, by around 20% over the year, bringing the segment of its clients that are below the poverty line down by 37% after two years banking with the institution.

Total credit clients

224,304

85%
Vulnerability[1]

67%
Women

41%
Rural environment

50%
Primary education at best[2]

New credit clients in 2017

51,871

88%
Vulnerability[1]

62%
Women

46%
Rural environment

57%
Primary education at best[2]

430
USD
Average disbursement[3]

170
USD
Monthly net income *per capita*

3.1
people
Household size

---

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

1. Our clients

SDGs impacted

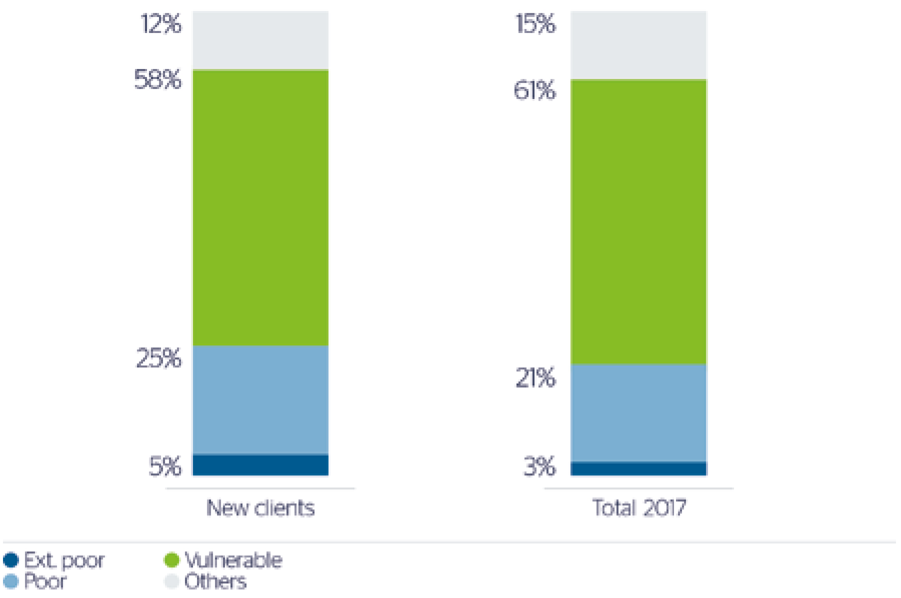
Socio-economic profile

- 85% of the entrepreneurs served by Banco Adopem are in *vulnerability* and 24% generate monthly *per capita (p.c.)* net incomes below the poverty line (PL). The bank always endeavors to serve its target clients: in 2017, 88% of new clients were in *vulnerability*.

- 67% of Banco Adopem's clients are women. Almost all are in *vulnerability* (87%) and 36% live in rural areas, contributing to the development of the most remote locations.

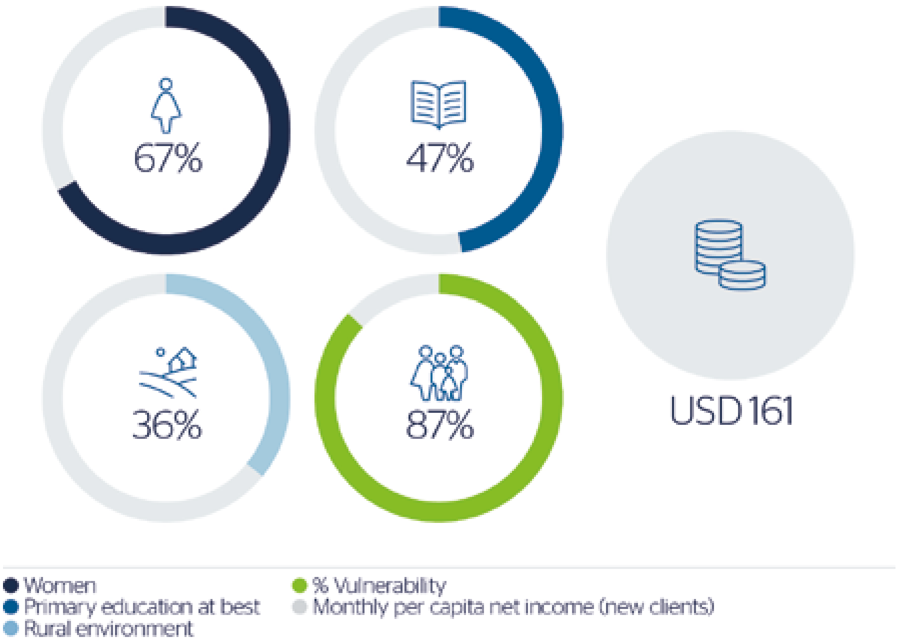
- One of the main wellsprings of gender inequality is the different rate of inclusion in the labor market. Many of the restrictions still facing women are associated with motherhood and produce significant gaps in their access to economic opportunities and the subsequent disparities in income and productivity between women and men when the former are of childrearing age. This means that the rate of women in poverty in the 20 to 59 age range, compared to poor men in the same age range, is greater.

1. **Client economic vulnerability**



Source: Banco Adopem. BBVAMF calculations.

2. **Women's profile**



Source: Banco Adopem. BBVAMF calculations.

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1. According to the Ministry of the Economy's poverty line (distinguishing between rural and urban environments). Clients whose net income (i.e. profit obtained from their microenterprise) divided by the number of members in the family unit is above the poverty line but no more than three times the poverty line of their corresponding country are classified as *vulnerable*. 'Total' shows the number of clients current at 12.31.2017. **2.** Proportion of clients current at 12.31.2017. New clients (no previous loans) signed up over the year.

- In fact, of the 51,871 new clients served in 2017, the *poor and extremely poor* segments consisted in the main of women (69% and 74%, respectively).

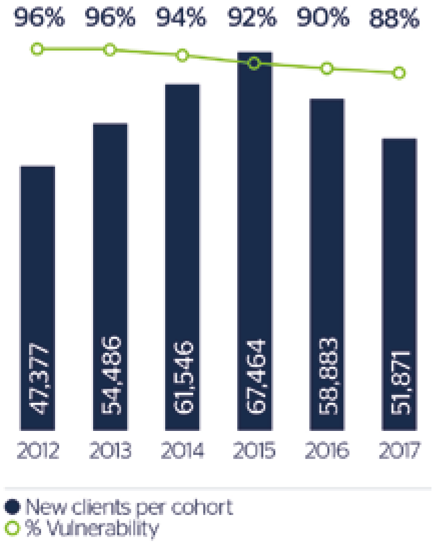
- Half are single-parent households (singles, separated or widowed) with dependants (55% in the case of women and 53% in the case of men). A third of households are made up of couples (married or living together), with a dependant (30% in the case of women and 32% in the case of men).

- The bank also looks for other vulnerable profiles such as those with primary education at best (57% of new clients) (*see graph 6*).

- New clients in *extreme poverty* have a monthly *p.c.* net income of USD 32, which represents 32% of the poverty line figure, so their p.c. monthly net income would have to increase by at least 212% to reach that limit. In the case of *poor* clients (with a monthly *p.c.* net income of USD 75), their incomes would have to grow by 33% to get over the poverty line.

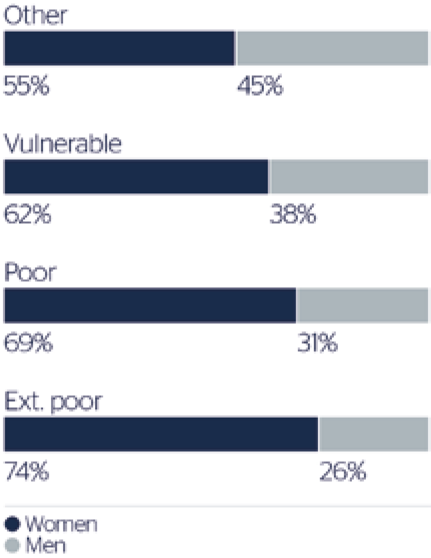
- The *p.c.* monthly net income of clients broken down by gender indicates that the gap between men and women is getting wider among *vulnerable* and *other* clients.

3. New credit clients



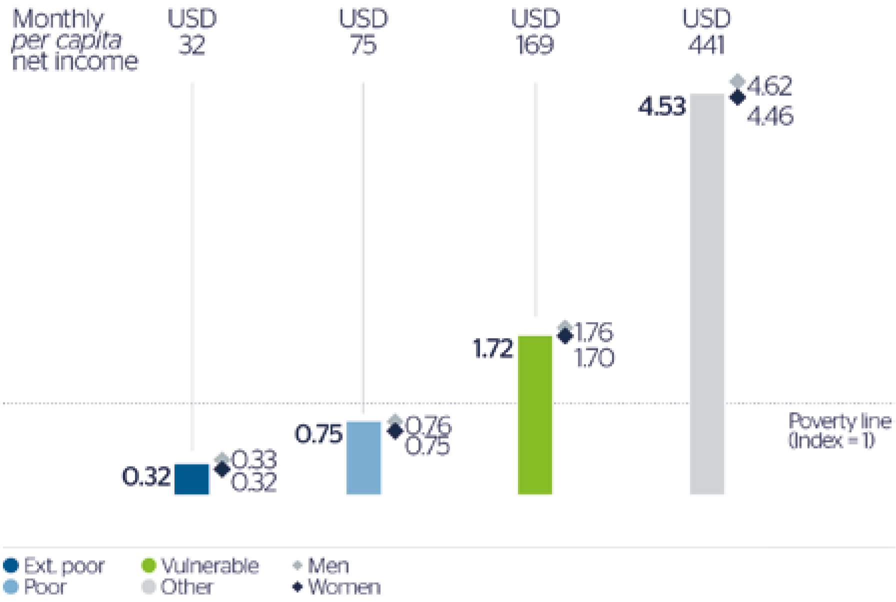
Source: Banco Adopem. BBVAMF calculations.

4. New credit clients' vulnerability, by gender



Source: Banco Adopem. BBVAMF calculations.

5. Relative net income of new clients



Source: Banco Adopem. BBVAMF calculations.

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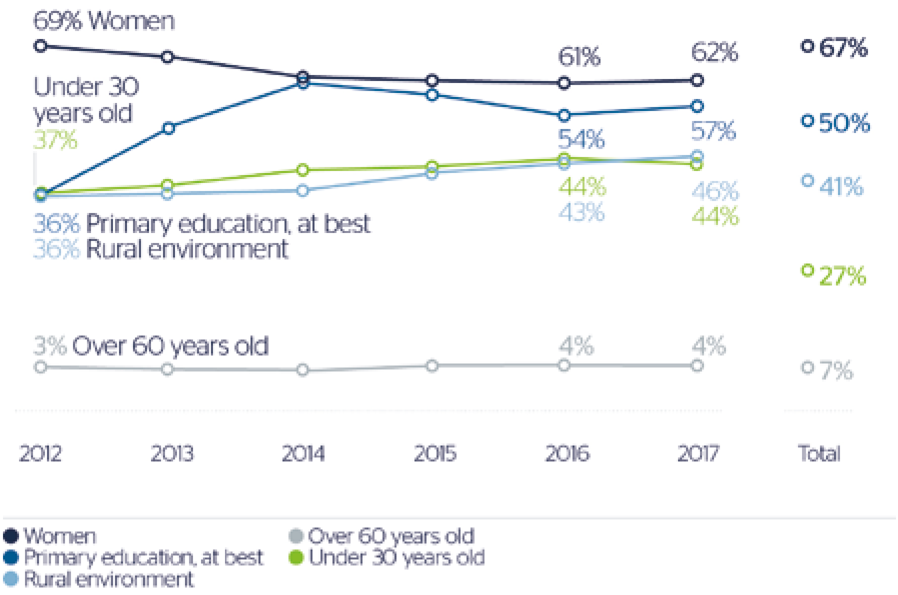
3 & 4. New clients (no previous loans) signed up over the year. **5.** According to official poverty lines from the Ministry of Economy, Planning and Development, differentiating between rural and urban environments. Considers clients signed up during the year (no previous loans).

1. Our clients

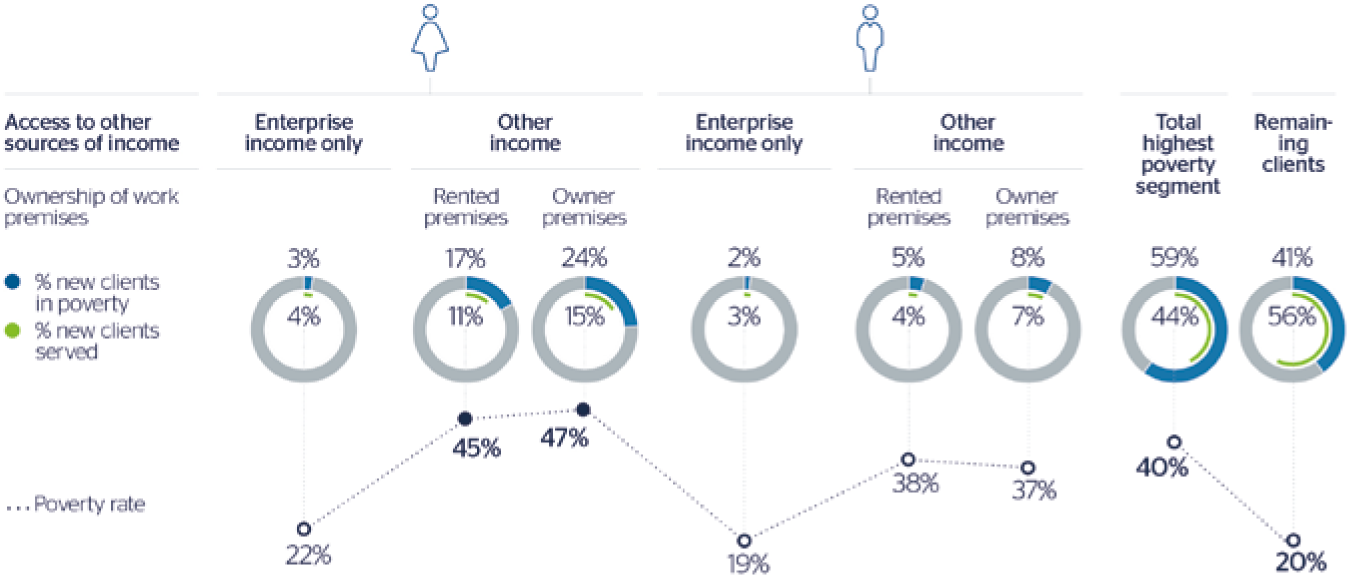
- We wanted to identify the profiles of our clients with the highest rates of poverty: clients in an urban environment and in the Trade sector (retail and wholesale) make up 43% of new clients served and 60% of all new *poor* clients served. Of these, women who need another source of income, and particularly those who have their micro-enterprise in a family home, are the segment with the highest rate of poverty: nearly five out of every 10 of these entrepreneurs are living under the poverty line. That is, their micro-enterprise may not be their principal source of income or else it does not cover all their economic needs.

6. Profile of new credit clients



Source: Banco Adopem. BBVAMF calculations.

7. Clients with the highest poverty rates



Source: Banco Adopem. BBVAMF calculations.

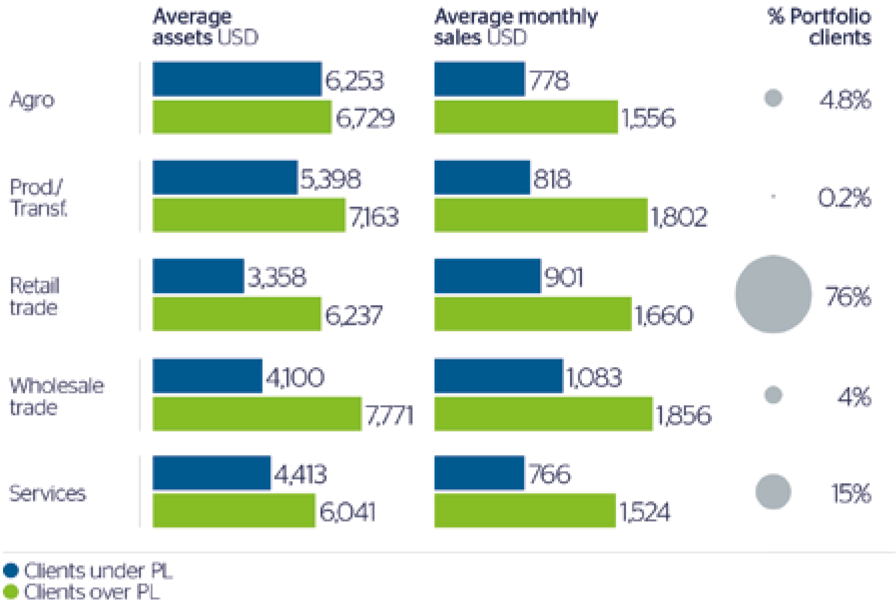
Profile of their businesses

- Most clients work in the Trade sector (retail and wholesale), which accounts for 80% of all clients, and shows a stable trend to 2016.

- Women are more entrepreneurial in Retail trade (83% *vs.* 63% for men), their main activity being the sale of clothes and textiles (50% of the total). Street sellers, selling in community markets and hairdressing services are also popular activities (6.7%, 5% and 5% of the total).

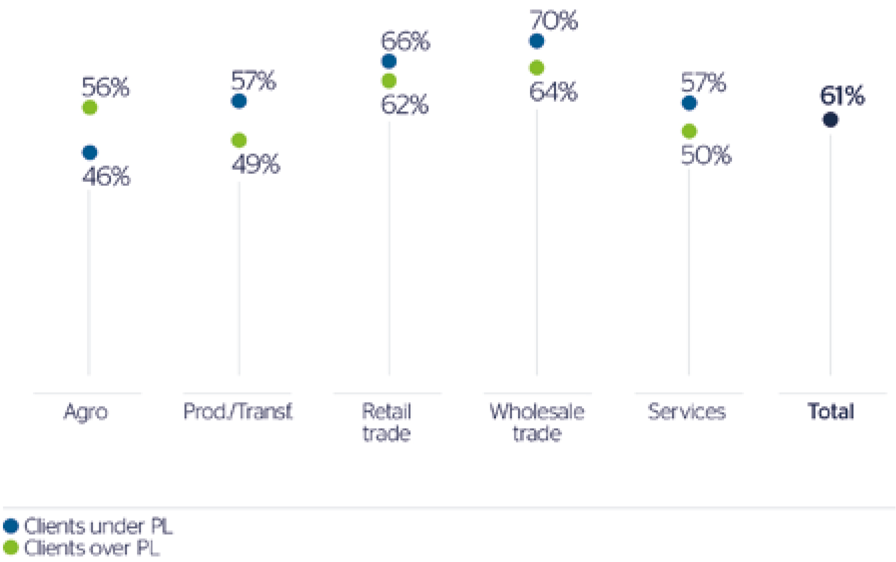
- Clients under the poverty line (PL) in the Retail trade sector have assets of around USD 3,000, half the assets of those above the PL. Entrepreneurs have a higher participation in businesses with lower level of assets and, as such, have a lower initial outlay, as well as fewer technical and/or physical requirements.

8. Average monthly sales and assets - clients under and over the poverty line (PL)



Source: Banco Adopem. BBVAMF calculations.

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



Source: Banco Adopem. BBVAMF calculations.

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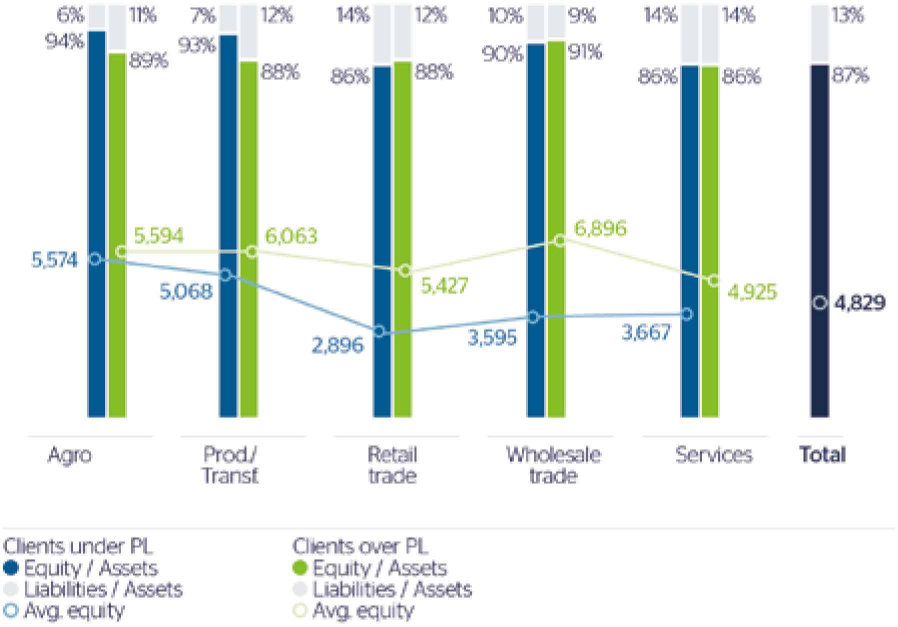
6. Covers new clients (no previous loans) signing up during the year. 'Total' shows the number of clients current at 12.31.2017. **7.** Covers new clients (no previous loans) signing up during the year. 'Total' shows the sum of the participation of the segments analyzed, calculated over total new clients served in 2017. 'Remaining' shows the participation of segments not included in the table, calculated over total new clients served during 2017. **8.** Average monthly sales and average assets in each sector, segmented as under PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. Covers clients current at 12.31.2017. **9.** Costs as ratio of average sales, by sector. Segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *other*) clients. Covers clients current at 12.31.2017.

1. Our clients

- The businesses of clients in greater *poverty* tend on the whole to have higher relative costs than the others, although the difference in Trade is lower than in other sectors. In the case of Agriculture, the opposite is true: clients below the PL have greater efficiency and lower costs than those suffering less poverty.

- On the other hand, Agriculture and Production/transformation are the sectors with the greatest cost differences (over sales) undertaken by clients under and above the PL.

10. Assets, liabilities and equity, by sector - clients under and over the poverty line (PL)



Source: Banco Adopem. BBVAMF calculations.

10. Assets, liabilities and equity, together with their ratios, for each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (*vulnerable* and *other*) clients. The loan granted by the institution is not included in liabilities. Covers clients current at 12.31.2017.

Where our clients are

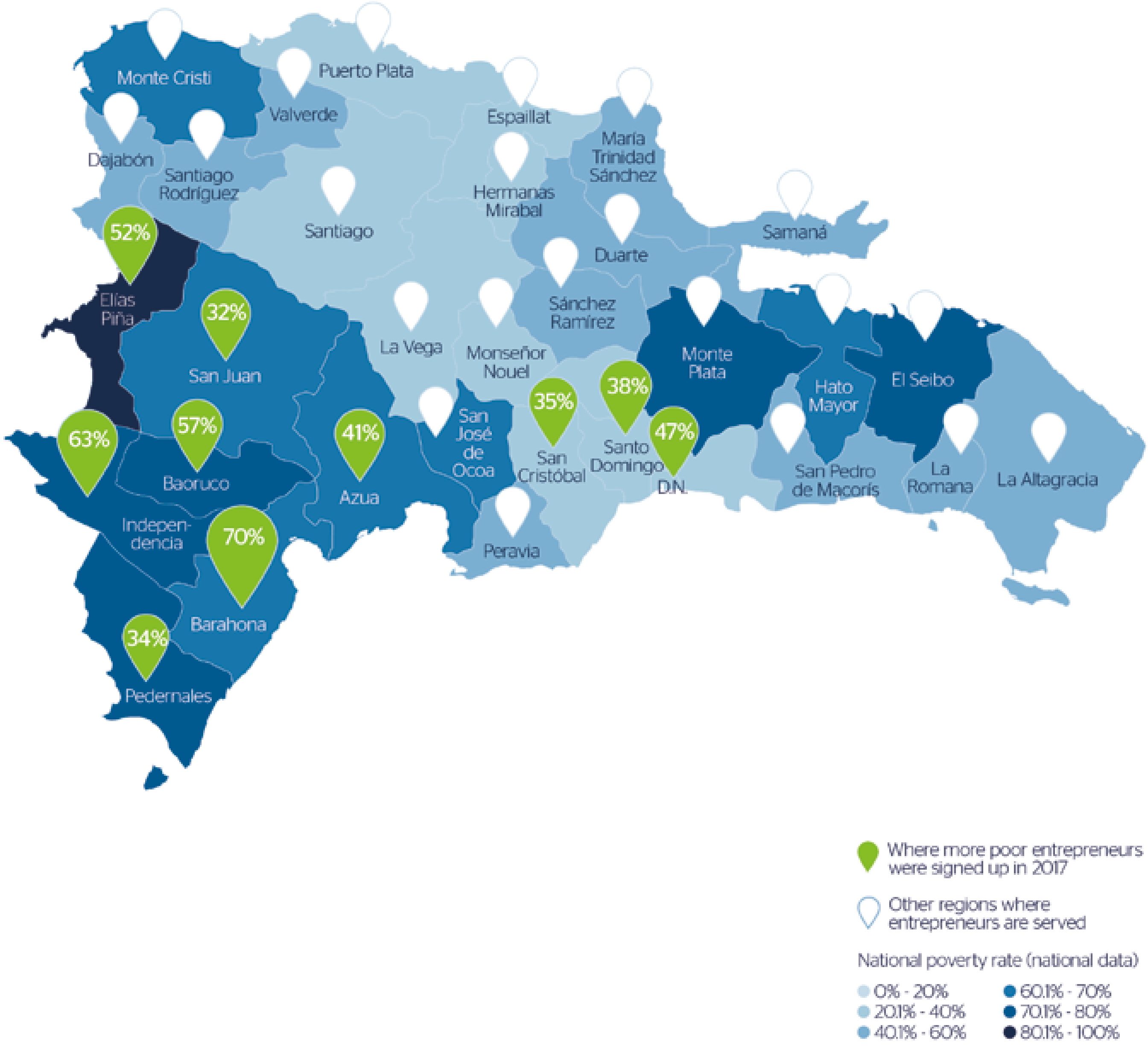
- Banco Adopem's footprint extends to every province in the country, reaching the least developed and most remote areas, where the percentage of poor households is sometimes higher than 70%, as shown on the map (Ministry of Economy, Planning & Development, 2010).

- In 2017 it reached out to serve 15,561 new clients under the PL, representing 30% of all its new credit clients in the year. It was particularly active in the provinces of Elias Piña, Barahona and Independencia, where the poverty rate is over 60%, and where it has over 9,000 new clients under the PL.

- Banco Adopem remains firm in its commitment to support *vulnerable* clients wherever they are, both in high density population areas, such as Santo Domingo, where a high number of people can be served, and in more remote areas, where the poverty rate is higher. Comparing nation-wide information with the data on each client reveals opportunities to help with other local bodies to promote economic development among low-income groups.

Banco Adopem supports vulnerable *clients throughout the country, reaching areas where the poverty rate is higher*

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


Monte Cristi
Puerto Plata
Valverde
Dajabón
Santiago Rodríguez
Espaillat
María Trinidad Sánchez
Hermanas Mirabal
Santiago
Samaná
Duarte
52%
Elías Piña
32%
Sánchez Ramírez
La Vega
Monseñor Nouel
Monte Plata
San Juan
Hato Mayor
El Seibo
35%
38%
63%
57%
41%
San José de Ocoa
47%
Santo Domingo
San Cristóbal
D.N.
Baoruco
Azua
San Pedro de Macorís
La Romana
La Altagracia
Indepen-dencia
70%
Peravia
Barahona
34%
Pedernales
Where more poor entrepreneurs were signed up in 2017
Other regions where entrepreneurs are served
National poverty rate (national data)
● 0% - 20%
● 20.1% - 40%
● 40.1% - 60%
● 60.1% - 70%
● 70.1% - 80%
● 80.1% - 100%

Source: Banco Adopem. BBVAMF calculations.

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11. Proportion of poor households by administrative department (2010) Ministry of the Economy, Planning and Development. Data from the Population and Housing Census. The 10 regions with the highest percentage of *poor* new clients served during 2017 are shown.

2. Our clients' development

SDGs impacted

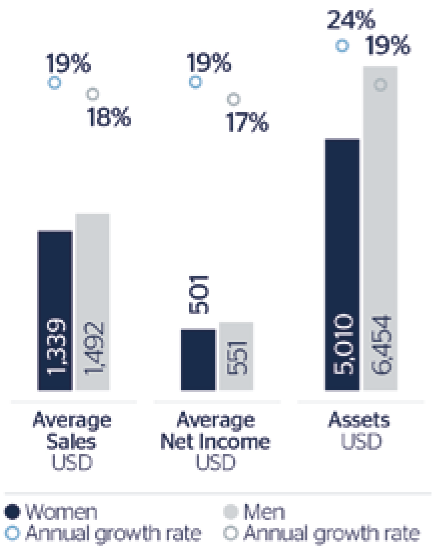
Growth of their businesses

- The country's continued economic growth (GDP up by 4.9%) has enabled high growth rates in sales, net incomes and assets (19% annually in sales and net incomes).

- Growth in monthly sales was higher in Agriculture and Services. Agriculture, however, which has assets of higher value, posted lower asset growth rates.

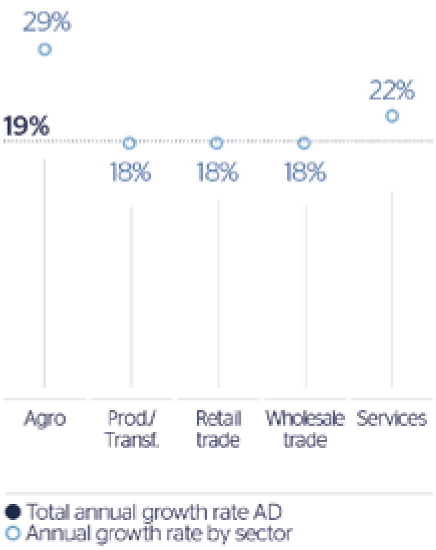
- Women's entrepreneurial activities reported lower assets, sales and net incomes than men's, but their compound annual growth rates in all three dimensions were higher.

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



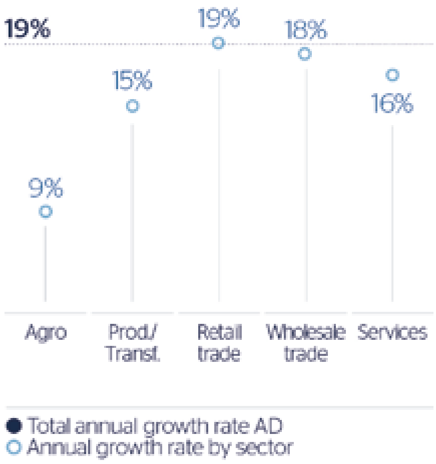
Source: Banco Adopem. BBVAMF calculations.

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



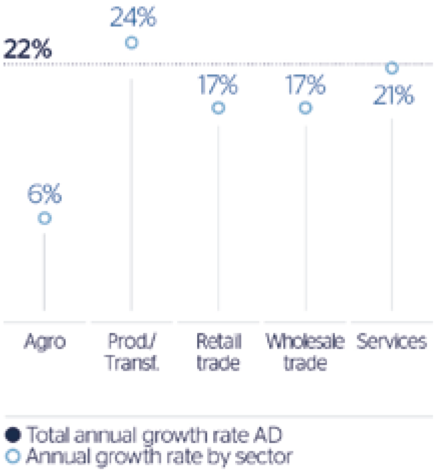
Source: Banco Adopem. BBVAMF calculations.

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



Source: Banco Adopem. BBVAMF calculations.

15. Avg. growth rates of assets, by sector



Source: Banco Adopem. BBVAMF calculations.

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12. Current clients at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. **13, 14 & 15.** Current clients at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector

Escaping poverty

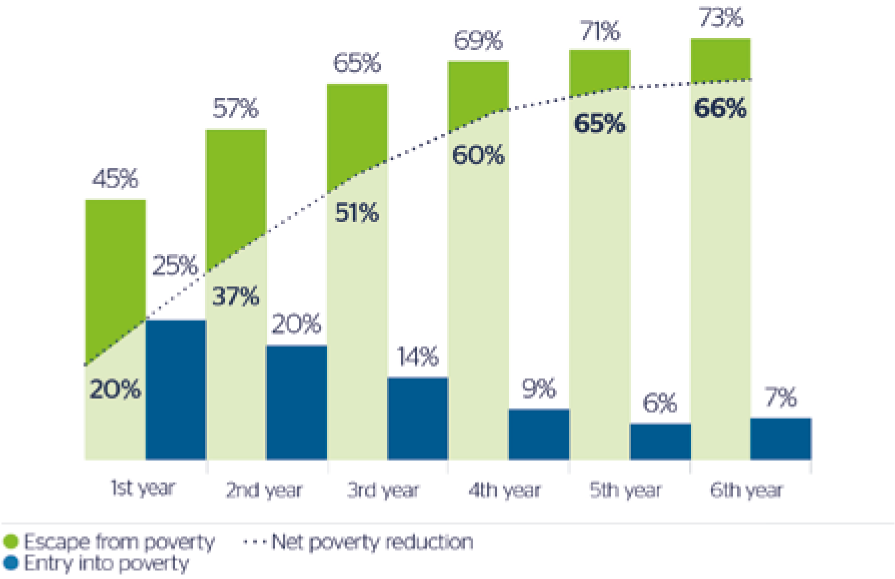
- In net figures, a higher percentage of clients escapes poverty as time passes: the time clients have banked with us has a positive effect on their performance. 37% of *poor* clients managed to get over the PL after two years.

- Nevertheless, clients' *vulnerability* is reflected in the fact that 15% of the *non-poor* clients fell into poverty. This ratio remains stable over time.

- The best performing clients (whether their situation at the outset is one of *extreme poverty* or *poverty*) are rural. Performance also differs by product used: clients with individual loans get further out of poverty than those taking out group loans (jointly).

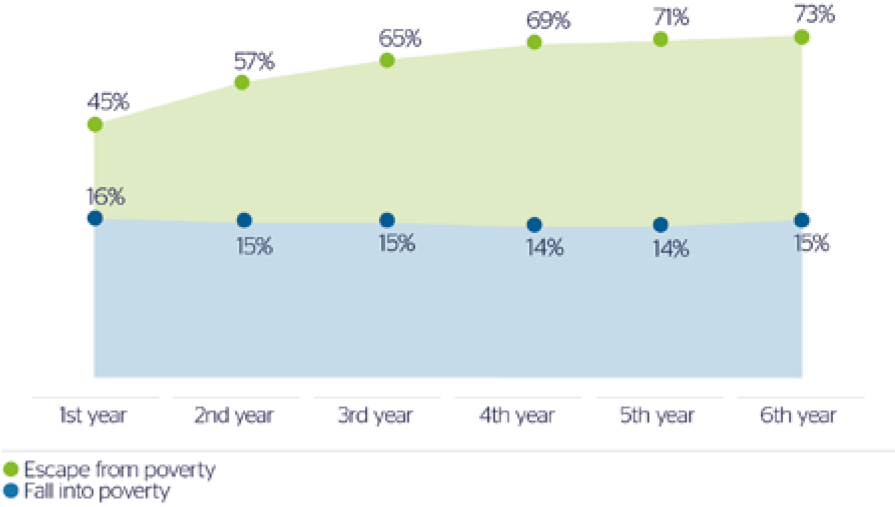
- This situation remains true whatever their initial *poverty* level, although it is more apparent in the case of *poor* clients than the *extremely poor.*

16. Net poverty variation



Source: Banco Adopem. BBVAMF calculations.

17. Clients falling into and escaping poverty



Source: Banco Adopem. BBVAMF calculations.

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16. Clients current at some point in 2017 whose data was updated in the last 12 months of their relationship with the institution. 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 outset, who have climbed above the poverty line, as a percentage of all those in *poverty* at the outset. • Entry into poverty: Clients not in poverty (classified as *vulnerable* or *other*) at the outset, who have fallen into poverty, as a proportion of clients in poverty at the outset. • Net poverty reduction: Escape from poverty – Entry into poverty. **17.** Clients current at some point in 2017 were recorded and their data updated in the final 12 months of their relationship with the institution. Clients who have written-off are excluded from the escape from poverty figure. • 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.

2. Our clients' development

- By total composition, even though it is the rural clients with individual products who perform best, there are more urban clients who escape poverty in absolute terms because more clients have this profile.

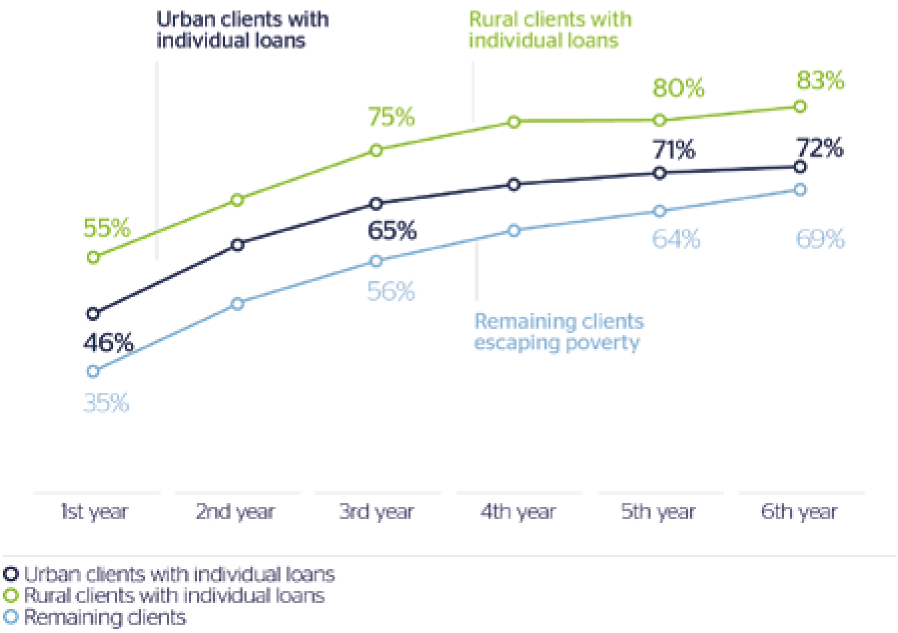
- We should point out that clients do not perform differently by age, gender or civil status, although for *poor* clients those with more education are more likely to escape from poverty.

- Looking at *per capita* net income relative to the PL, performance by *vulnerability* segment remains stable. In fact, clients who have renewed a loan in 2017 show better performance, particularly those in *extreme poverty.*

- In 2017, *poor* clients escaped poverty after their first credit and the *extremely poor* after two.

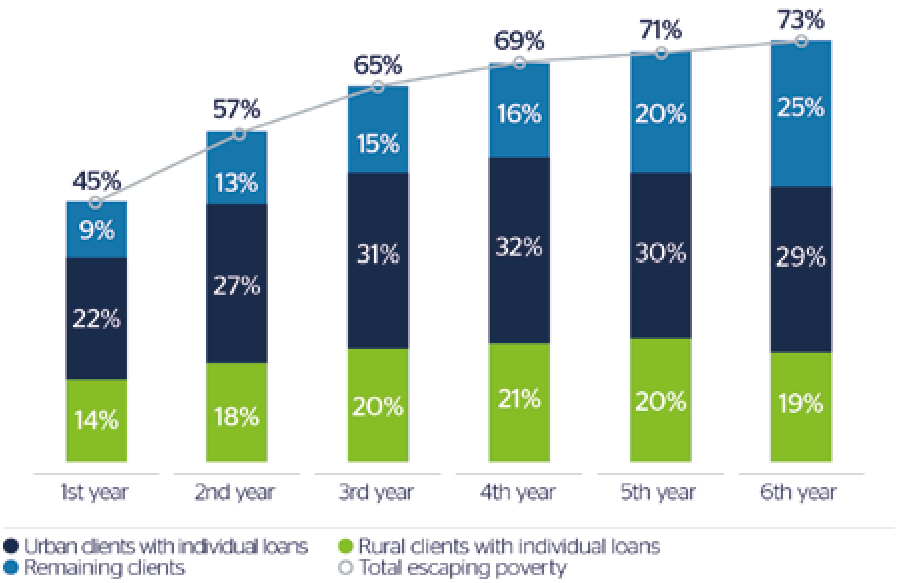
- Relative *p.c.* net income growth rates show differences by *vulnerability* segment: the greater the poverty, the higher the growth, independently of the credit cycle they are in. Furthermore, these rates remain stable over time.

18. Clients escaping poverty, by best performing segments



Source: Banco Adopem. BBVAMF calculations.

19. Distribution of clients escaping poverty



Source: Banco Adopem. BBVAMF calculations.

18, 19 & 23. Clients current at some point in 2017 who have updated their data during the last 12 months. Clients who have defaulted are excluded from the "escaping poverty" category. Proportion of those escaping poverty over those who were poor at the outset. Indicator by segments. **20.** 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), showing the progress of monthly *p.c.* net income in each credit cycle, relative to each country's official poverty line. Relative *per capita* monthly net income takes the value of one when it is equal to the poverty line.

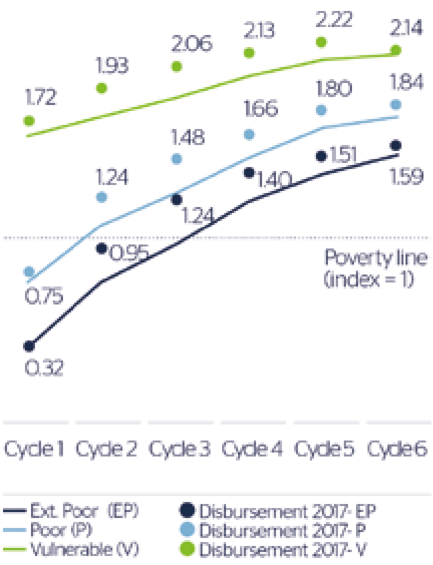
- Nevertheless, our clients' incomes are unstable, which is another feature of their situation. When we look at clients who have had at least five loans, we see that of the *non-poor*, 46% cross the poverty line at least twice, and are thus classified as volatile. Of clients joining the bank as *poor*, 30% are volatile, reflecting the need to support them so that they can consolidate their incomes.

- 55% of clients below the PL are able to escape poverty and remain above the PL during the period studied (five loans).

- Unstable income is one of the primary reasons for falling into poverty. When clients falling into poverty in 2017 were analyzed, in 51% of cases this was due to a reduction in incomes, against 24% for whom it was due to an increase in costs, of which indirect costs are the majority cause. The remaining 25% fall into poverty, mainly as a result of the increase in household members.

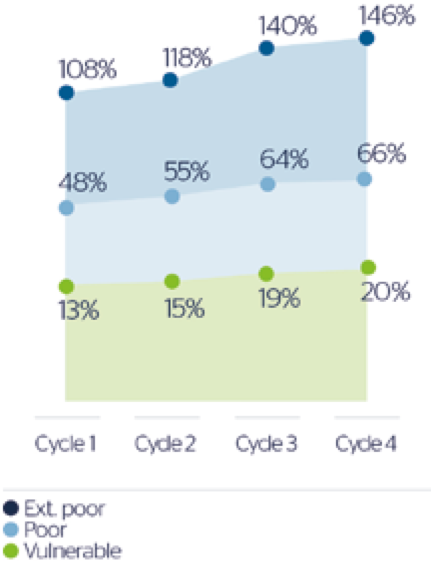
- We see how most clients perform well and succeed in getting over the poverty line or in improving their situation. Nevertheless, the challenge lies in supporting clients to stabilize their income in the medium term and this requires effort, not only on the part of the financial players, but on the part of all those involved in their ecosystem.

20. **Net income relative to the PL**



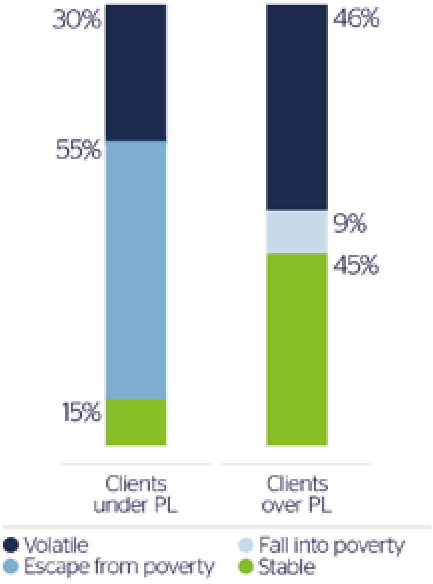
Source: Banco Adopem. BBVAMF calculations.

21. **Average net income growth relative to the PL**



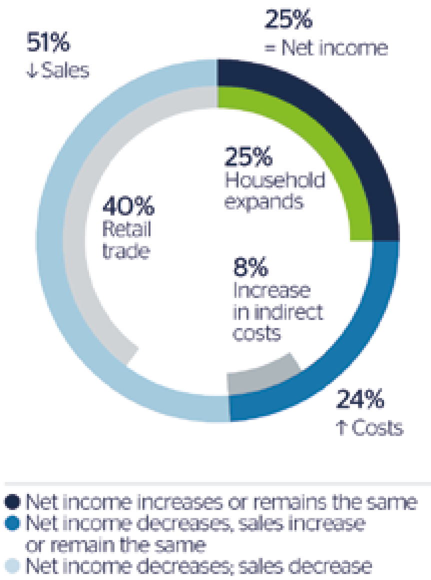
Source: Banco Adopem. BBVAMF calculations.

22. **Net income volatility relative to the poverty line**



Source: Banco Adopem. BBVAMF calculations.

23. **Clients falling into poverty**



Source: Banco Adopem. BBVAMF calculations.

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21. For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at each credit cycle. **22.** Clients served between 2011 and 12.31.2017 who have had at least five disbursements. The classification by *vulnerability* considers their situation at the outset (first loan) and is segmented by under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*). • Volatile: client who crosses the poverty line at least twice. • Escape from poverty: client who escapes poverty and doesn't fall back in. • Fall into poverty: client enters poverty in one cycle and does not escape it again. • Stable: client who remains poor or non-poor throughout the five disbursement cycles.

2. Our clients' development

Indirect impact

- In Banco Adopem, 16% of entrepreneurs are capable of generating employment in the communities where they work. The lower their *vulnerability*, the greater their capacity to hire employees.

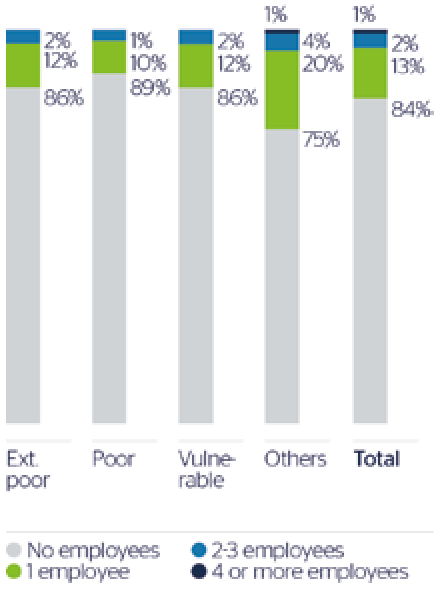
- After the first year with Banco Adopem, on average, 6% of clients manage to employ at least one more worker, 10% do so after three years, which has a positive impact on their communities.

- After three years, 7% of clients have managed to improve their housing conditions, moving from a rented property to their own, thus improving their safety and standard of living.

- 9% of the clients who have been with the institution the longest (over five years) invest part of their net income in education, improving their education from when they signed up with the bank.

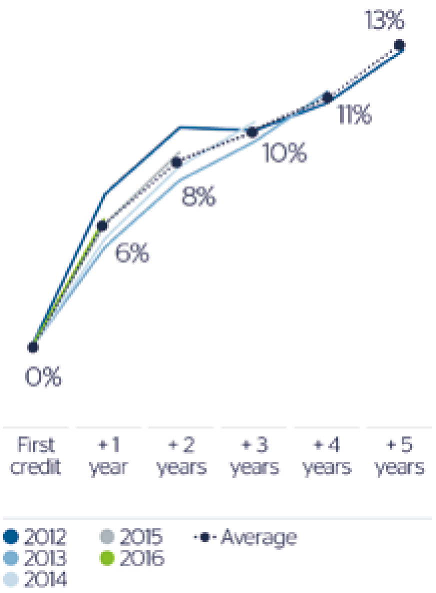
- In the Dominican Republic, one of the key poverty gaps is determined by the level of schooling: 73% of adults with secondary education or higher are financially included *vs.* only 41% of those with primary education at best (see *Macroeconomic analysis*).

24. **Micro-enterprise employee breakdown**



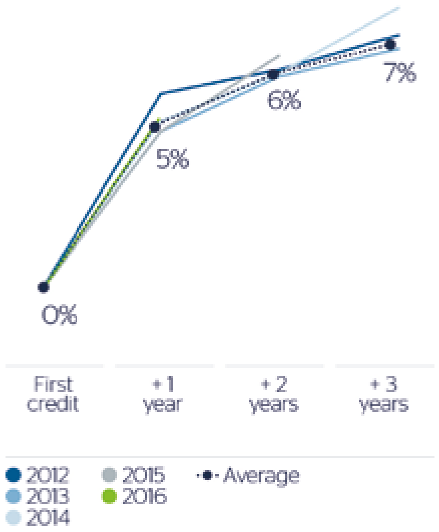
Source: Banco Adopem. BBVAMF calculations.

25. **Job creation (by cohort)**



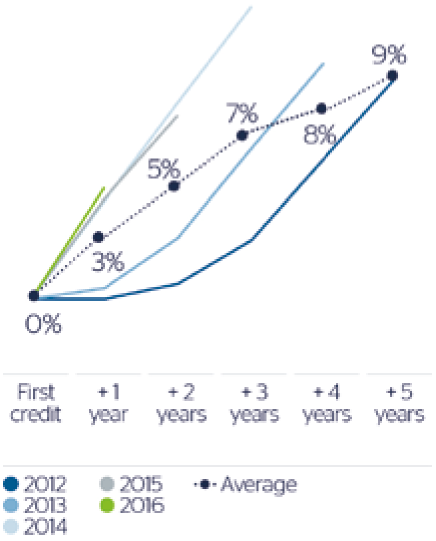
Source: Banco Adopem. BBVAMF calculations.

26. **Client improvement in housing (by cohort)**



Source: Banco Adopem. BBVAMF calculations.

27. **Client improvement in education (by cohort)**



Source: Banco Adopem. BBVAMF calculations.

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24. Covers the number of employees working for clients current at 12.31.2017. **25.** 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 2012-2017 are shown. **26.** Proportion of clients current as of 12.31.2017 from each cohort that has improved their living arrangements (moved into their own home), upgraded their home (eg. bathroom, fuel used) or increased the number of rooms. **27.** Proportion of clients current as of 12.31.2017, from each cohort that has improved their educational attainment.

3. Relationships with clients

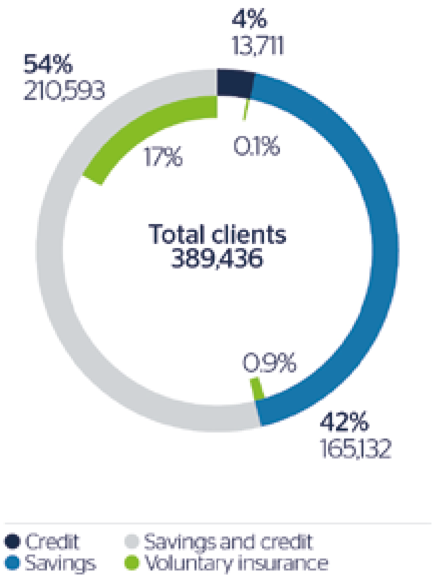
SDGs impacted

- Most Banco Adopem clients are savings and credit clients (54%), of whom 17% have taken out a voluntary insurance policy. Clients who do not have a loan, hardly sign up for other products; only 1% also have insurance.

Relationship with our credit clients

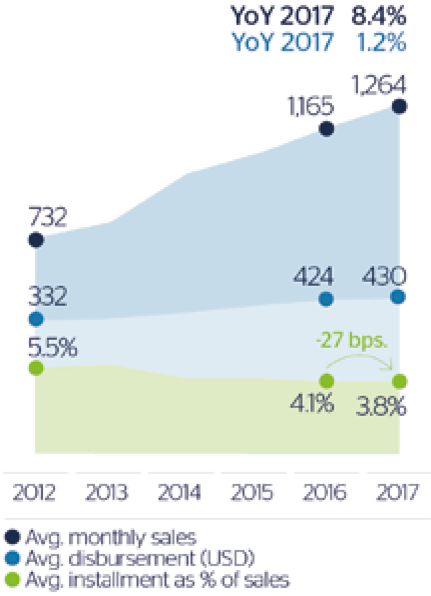
- For new clients served in 2017, the average disbursement and the installment remained stable over time, although the Dominican peso depreciated against the US dollar.
- The average disbursement per transaction increased over time with the bank, rising from USD 396 in the first year, to USD 1,224 in the fifth.
- On average, 74% of credit clients stay after one year.
- After the first loan, 67% of clients take out a second, showing they trust the institution.

28. Client linkage by product type



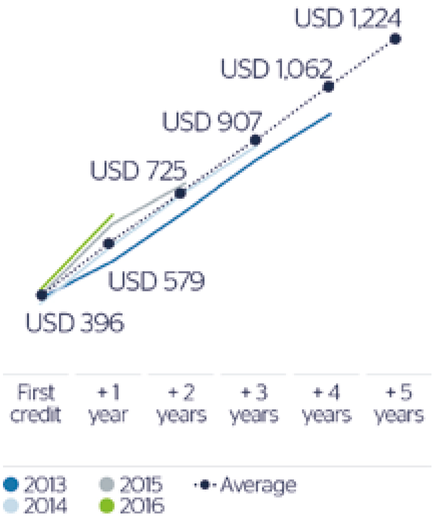
Source: Banco Adopem. BBVAMF calculations.

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



Source: Banco Adopem. BBVAMF calculations.

30. Average disbursement per transaction (by cohort)



Source: Banco Adopem. BBVAMF calculations.

31. Credit client retention and recurrence

Retention

Start	100%
+1 year	74%
+2 years	56%
+3 years	42%
+4 years	33%
+5 years	28%

Recurrence		Distance (days)
Cycle 1	100%	0
Cycle 2	67%	336
Cycle 3	45%	366
Cycle 4	30%	382
Cycle 5	19%	388
Cycle 6 or +	10%	373

Source: Banco Adopem. BBVAMF calculations.

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28. Clients current as of 12.31.2017. **29.** 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. **30.** Variation 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 2013-2017 cohorts to which the average growth of the disbursement of cohorts 2012-2017 is applied. **31.** '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. Percentage of clients that, after an initial loan, accesses another. Distance between cycles is the number of days between two successive disbursements.

3. Relationships with clients

Relationship with our savings clients

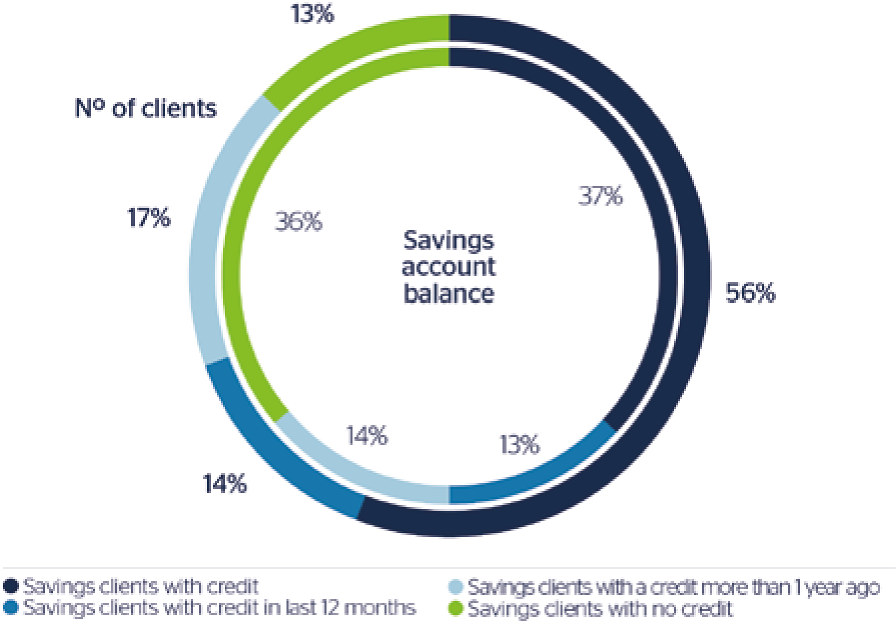
- Savings clients grow at a year-on-year rate of 0.1%, whereas clients with deposits do so by 7.4%, representing the highest percentage of the bank's liabilities.

- 56% of savings clients also have a current loan. These clients account for 37% in balances and are those who most use their savings accounts; 83% have had at least three bank movements in the previous three months.

- Clients who only have savings (who have never had a loan with the bank) have edged up slightly since 2016 (0.15%). Furthermore, they represent 36% of savings balances. 83% have had bank movements in the previous three months, 67% have even made more than 10 transactions, showing an interest in accessing a range of savings products. In addition, 59% of them have balances of over USD 15. These clients show a greater capacity to save.

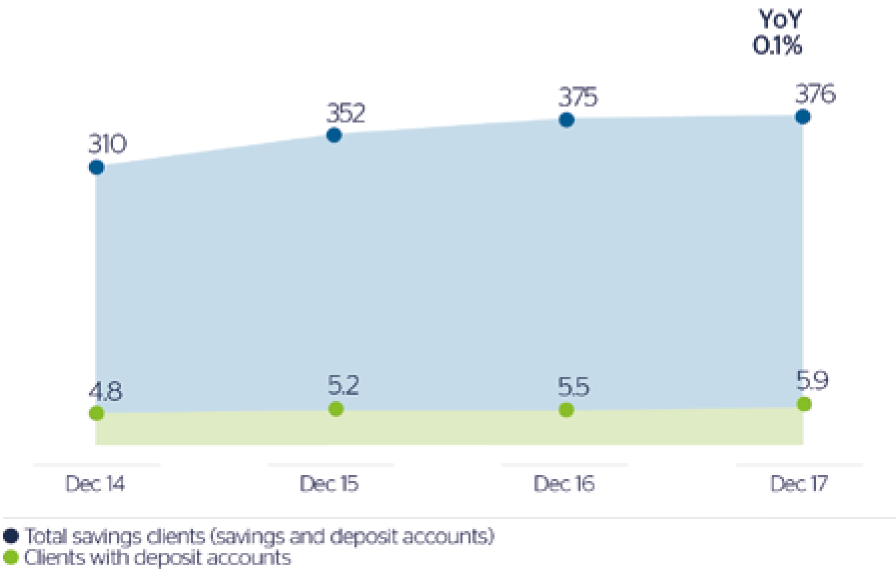
- Simply having a bank account is of great value to low-income clients, particularly the most vulnerable women, because it represents a safe place for them to put their net income, most of which they use to increase their households' welfare.

32. **Linkage of savings clients**



Source: Banco Adopem. BBVAMF calculations.

33. **Clients with savings and deposit accounts ('000)**



Source: Banco Adopem. BBVAMF calculations.

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32. Clients and savings balances as of 12.31.2017.
33. Clients with savings products (savings accounts and deposits) on each date.

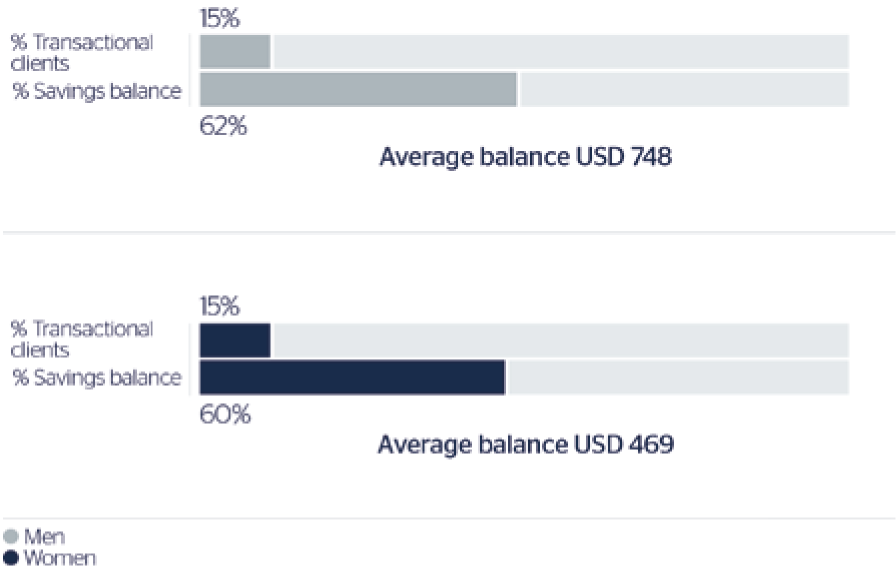
- 15% of clients have had more than three banking movements in the previous three months; a trend that remains stable over time.

- These results are in line with the national trend, where around 14% of adults in the Dominican Republic carry out more than three transactions a month, although cash remains the preference of most*.

- Women in Banco Adopem have lower balances: USD 469, compared to men, with USD 748.

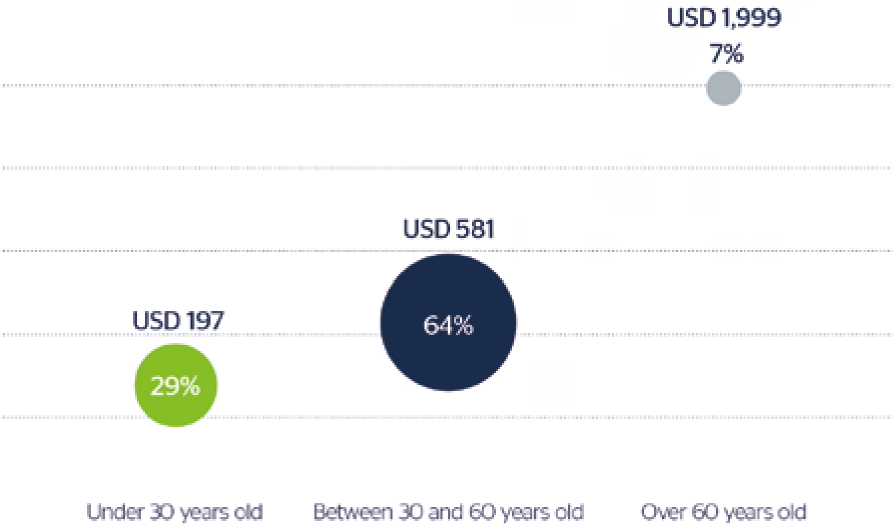
- Clients' average balances remain high among the over 60s, reducing their vulnerability in the short term.

34. Transaction figures, by gender



Source: Banco Adopem. BBVAMF calculations.

35. Savings account balance, by segment



Source: Banco Adopem. BBVAMF calculations.

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34. Clients who conduct transactions (nº of movements in the last three months), excl. administrative movements (interest, fees) in their overdrawn balances at 12.31.2017. **35.** Clients who have conducted three transactions in the last three months), excl. administrative movements (interest, fees) on their savings balances at 12.31.2017.Percentages represent the number of clients in each segment.

*World Bank Global Findex

Macroeconomic analysis

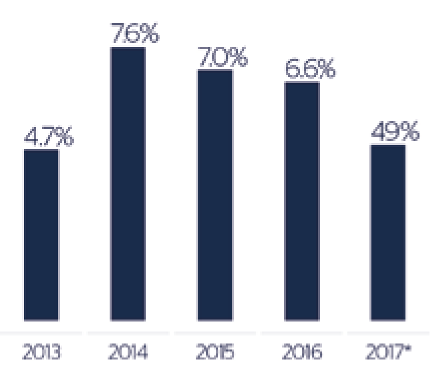
Dominican Republic

The economy has grown, converging towards the average reached between 2000 and 2016, in a higher inflation environment, because of the impact of climate factors on the price of foodstuffs, which had greater impact on the low-income segments.

Economic context

Economic growth: the momentum continues

GDP growth (var.)



Source: Central Bank. * Estimate: FMBBVA Research.

The Dominican Republic has continued to grow strongly, driven mainly by internal demand, with expansion at 4.9% in 2017, converging with its growth potential[1]. Growth came in 5.2% in the first quarter, but moderated in the second, down to 2.7%.

Private consumption expanded by 4.3%, while investment did so by 3.2%, recording a drop of 10 percentage points from 2016. The slowdown in public and private investment was influenced by a greater correction than expected in public spending and more subdued expectations[2].

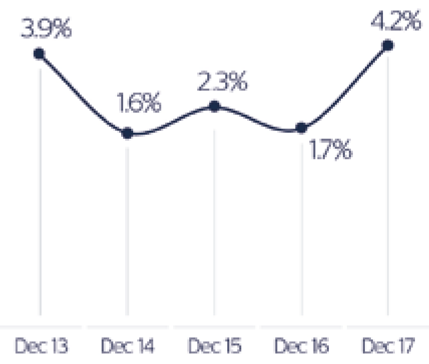
This is shown in the Construction sector, which grew by 4% in 2017, after having contracted in the second quarter of the year. More buoyant investment in the second half meant that Construction shot up by 12% in the second half of the year.

Agricultural activity posted year-on-year growth of 5.9%, even though the sector had been affected by Hurricanes Irma and María, which brought activity to a standstill for three days throughout the country, and for 10 to 15 days in some provinces. The hurricanes not only affected agricultural activity, with growth over all sectors slumping to just 0.4% in September.

Despite the impact of the hurricane season in the Caribbean, in 2017 there was a rise in the entry of foreign visitors and non-resident Dominicans, setting a record at 6,187,000 people, a year-on-year increase of 3.8% from 2016. 95% of tourists reported that the main reason for their visit to the country was leisure. Of these, hotels were the accommodation choice of 94%. Revenues from tourism rose in 2017 to around USD 7.22 billion, an increase of 7.5%. This allowed the hotels, bars and restaurant sector to expand by 5.7% in 2017.

Inflation: climactic factors and oil drive up prices

Inflation (CPI var.)



Source: Central Bank.

Inflation ended 2017 at 4.2%, at around the center of the target range of 4%±1% set by the central bank. 72% of that was the outcome of annual variations of 5.5%, 5.2% and 5.9% in the indicators of Foodstuffs and non-alcoholic beverages, Transport and Housing, respectively. Similarly, 23% of annual inflation was due to the increase in fuel prices (gasoline, diesel, liquified petrol gas (LPG) and kerosene gas), associated with the higher petroleum prices that have impacted both transport and electricity generation. The fall in fuel prices has made it possible to achieve the country's lowest levels of inflation historically, even though the Dominican economy has been growing at above its potential in recent years.

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1. Conducted at the end of November 2017. **2.** All 2017 estimates are by BBVAMF Research.

Economic context

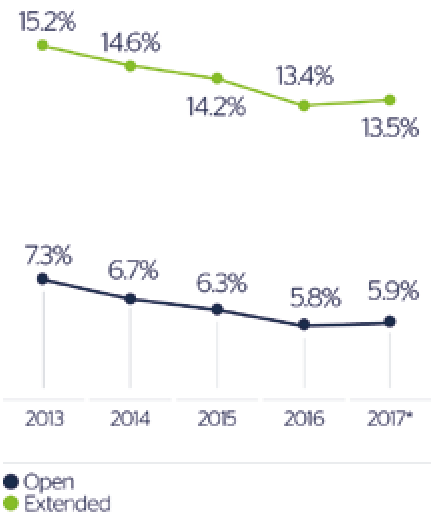
Significant reduction in poverty, but slower progress in reducing income inequality

By strata, inflation showed sharper variations in the lower spending quintiles, a result of the increase in the Foodstuff and non-alcoholic beverages group, which has greater relative weight in their baskets. And so, quintile I accumulated an annual variation of 4.6%, whereas quintile IV grew by 4.0%. Climactic factors have generated a significant restriction in the food supply, which can be seen in the accumulated 54% growth in the price of these items in the last quarter of the year.

The North Region was particularly impacted, posting inflation of 4.8% over the year, followed by the South Region with 4.3% and the East with 4.1%. The zone least impacted by the prices was Ozama, at 3.7%, mainly because of the lower incidence of the Food and non-alcoholic beverages on its indicator.

Labor market: the services sector accounts for 74% of employment

Unemployment rate, %



Source: ONE.* Estimate: FMBBVA Research.

The "open" unemployment rate, that only considers unemployed the population that is actively looking for work, went down from 6.7% in 2014 to 5.9% in 2017. However, the "extended" unemployment rate, that includes those who are not looking for a position, posted at 13.5%.

The economically active population (EAP), the proportion of the population of working age that is active in the labor market, was 60% of the whole. The activity rate of men was 70%, whereas for women, even though it has improved in recent years, it was still around 50%.

In structural employment terms, 59% of the employed worked in the informal economy, that is, nearly six out of every 10 workers. Of these, 60% were not receiving all the labor benefits they are due under law.

The Services sector accounted for 74% of all people in work, mainly in Trade, which agglutinated 22% of all employment. Other services contributed 29%, and Hotels, bars and restaurants, 7%. These are the sectors that are leading job creation.

Labor productivity by worker rose by 3.3%. Although this indicator has continued the favorable course it has been following since 2011, for the second year in a row it showed a slight slowdown from the three preceding years[3].

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3. All 2017 estimates are by BBVAMF Research, using data from the National Statistics Office (ONE) [Oficina Nacional de Estadística]. **4**. All 2017 estimates are by BBVAMF Research, using data from the World Bank's Global Findex. **5**. Someone can be considered monetarily poor if their monthly p.c. income is below the monetary value of a basket of goods and services that meets one person's basic needs (poverty line).

Social environment

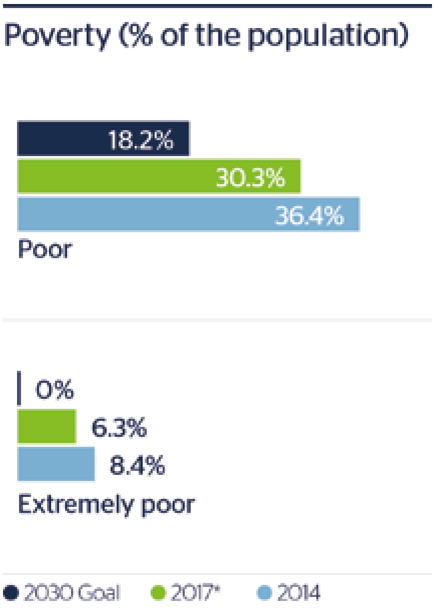
Financial inclusion: access to the financial system is up

By the end of 2017, 64% of adults had access to the financial system, measured as having a financial product, a 10 percentage point improvement from the last time this was measured, in 2014. Around 4.6 million adults were included in the financial system, with around 895,000 of these having joined the system in the last three years. Around 2.6 million adults were excluded from the financial system at the end of 2017.

The greatest gap in financial inclusion is determined by schooling level. 76% of adults with secondary education or higher are financially included, whereas this is true of only 43% of those with primary education at best, a gap of 33 percentage points.

The gap in financial inclusion by income level is 25 percentage points. 70% of the segments with the highest income percentiles (the top 60%) accesses the financial system, whereas in the lower income ranges (the bottom 40%) only 45% has access[4].

Poverty: the rate at which people escape from poverty is dropping



Source: ONE. * Estimate: FMBBVA research, ONU.

Monetary poverty[5] in the Dominican Republic in 2017 affected 30.3% of the population, a reduction of 6.1 percentage points from the 36.4% rate recorded in 2014. Nevertheless, in 2017, the rate of people escaping poverty has been slower, with the numbers in poverty falling by only 0.2 percentage points, whereas in the three years previously the average was 3.6 percentage points, on average.

In the case of extreme poverty, or destitution, a nationwide rate of 6.3% was recorded, a reduction of 2.1 percentage points from 2014, when the rate stood at 8.4%. In absolute terms, around 3.05 million Dominicans subsist in conditions of poverty, which represents a drop of 545,000 people since 2014, when the total population in poverty came to 3.6 million people.

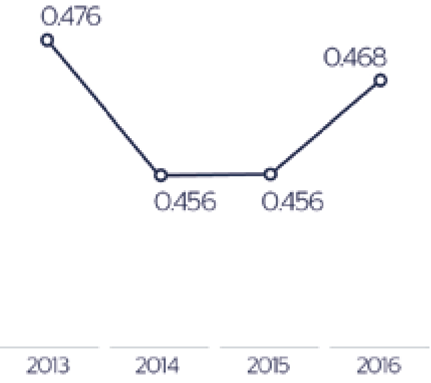
In rural areas, poverty affects 37.9% of the population, whereas in urban areas it is 26.7%, with that structural persistence between those two areas remaining unchanged. An analysis of the 2014-2017 period shows us that nominal *per capita (p.c.)* income has risen by 25.4%, due mainly to the increase in labor income, together with low inflation, which has allowed growth of real incomes to reach 13.8% over this period.

The border regions in the south of the country continue to be afflicted by the greatest poverty. In Enriquillo around 56% of the population is in a state of poverty, in El Valle this is true of 47%, whereas in Valdesia the poverty rate is 38% of its population. The areas with less poverty are the Metropolitana, North Cibao and North East Cibao, with rates of 23%, 26% and 28%, respectively.

Social environment

Inequality: improvements have come to a halt

Inequality (Gini ratio)



Source: ONE.

In 2016[6], income inequality, measured on the Gini index, that uses values between 0 (the absence of inequality) and 1 (maximum inequality), came in at 0.468, which was a one-off increase in the index over 2015, when it registered 0.456.

For 2016 there was a rise in the ratio, both in the country and in urban areas. In the towns inequality increased, with a Gini index of 0.472, higher than the 0.412 index recorded in the rural environment.

During this period, the most unequal region was Metropolitana, with a ratio of 0.482, while the region with the greatest distributive fairness was North East Cibao, with a ratio of 0.393.

The increase in the price of food had a sharper impact on the lowest-income quintile, due to the greater weight in the basket of this segment; this accounts for the greater relative impairment of their real incomes, with the result that the improvements achieved in previous years were reversed.

> *Real* per capita *income has increased by 13.8% between 2014 and 2017*

Other dimensions

The average years of school attendance for the adult population (15 and older), an indicator that explores school coverage, is showing favorable progress. On average, school attendance is 9.2 years, an improvement of 0.3 years from 2014. For men, average schooling is 8.9 years, and for women it goes up to 9.5 years. Both groups have been on a steady upward curve. The gap between the female and male population remains stable, at 0.6 years of schooling.

When the variation in the years of schooling is analyzed by poverty level, we see that the *non-poor* segments of the adult population have an average of 9.7 years of schooling, whereas in the *poor* segment (excluding those in extreme poverty) it is 7.6 years, ie. a gap of 2.1 years. This factor has an impact on structural poverty levels.

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[6] Official Statistics Bulletin for Monetary Poverty. National Statistics Office (ONE) [Oficina Nacional de Estadística].

2017 Social Performance Report

Measuring what really matters

117,331
Total clients

39%
Primary education at best

Chile

Fondo Esperanza

82%
Women

USD 251,956,414
Amount disbursed

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

117,331

Nº of disbursements in 2017

289,265

Nº of branch offices

54

Gross loan portfolio (USD)

79,550,028

Average disbursement in 2017

871

Nº of employees

608

Amount disbursed in 2017 (USD)

251,956,414

People receiving financial education

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. Entrepreneurship is particularly beneficial in creating opportunities for segments suffering from a lack of employment 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

---

[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

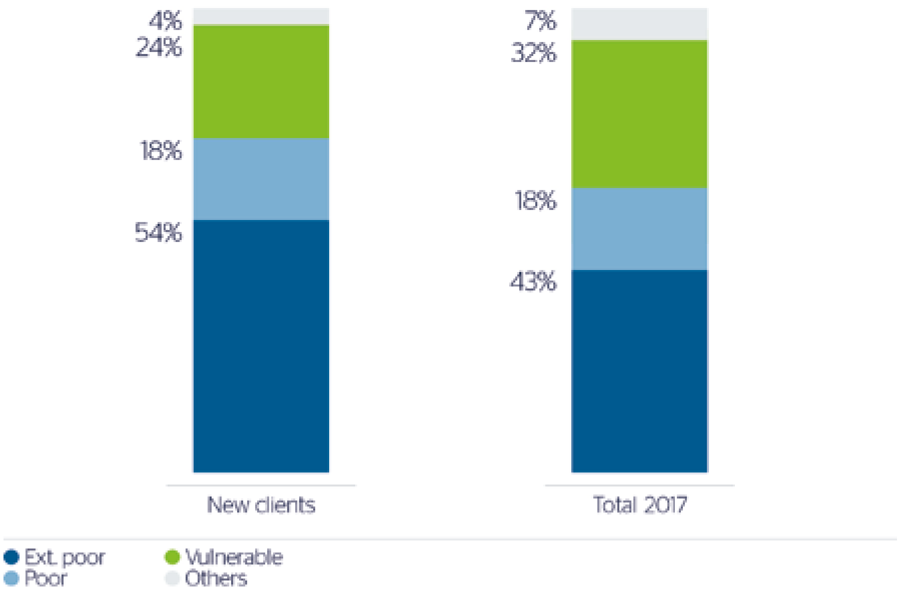
Socio-economic profile

- 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.

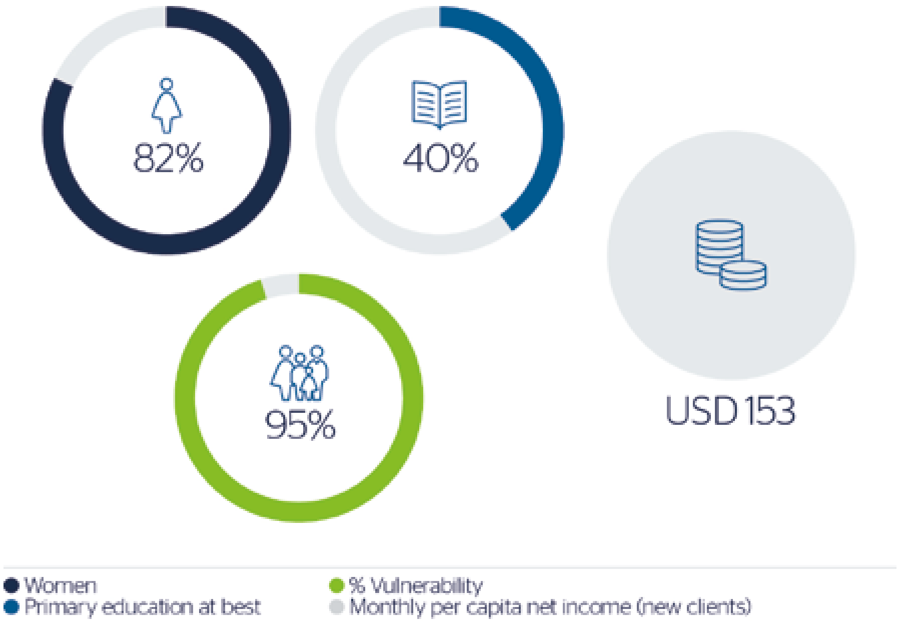
- Fondo Esperanza has remained true over the years to its mission to support that part of the population with the least access to financial services: 96% of new clients are in *vulnerability*, an average it has kept stable since 2012.

1. **Client economic vulnerability**



Source: Fondo Esperanza. BBVAMF calculations.

2. **Women's profile**



Source: Fondo Esperanza. BBVAMF calculations.

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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.

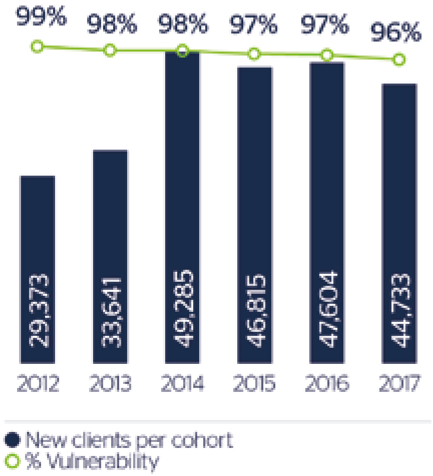
- In 2017 the linkage with new entrepreneurs is a sign of its commitment to reaching the most vulnerable, with 75% being women and 28% young people under 30 years old (segments of high *vulnerability*) *(see graph 6)*.

- 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.

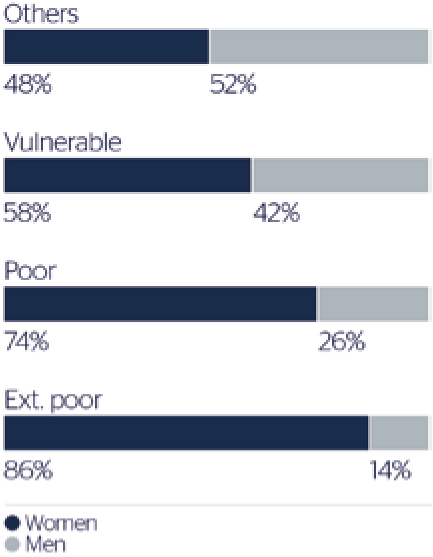
- In Chile there is a yawning gender gap in the labor and economic arenas: the gap in labor participation rate between women and men is 23 percentage points (the third highest in the OECD), and only 48% of women take part in the formal labor market. The remaining 52% neither has a job in the formal economy 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. New credit clients



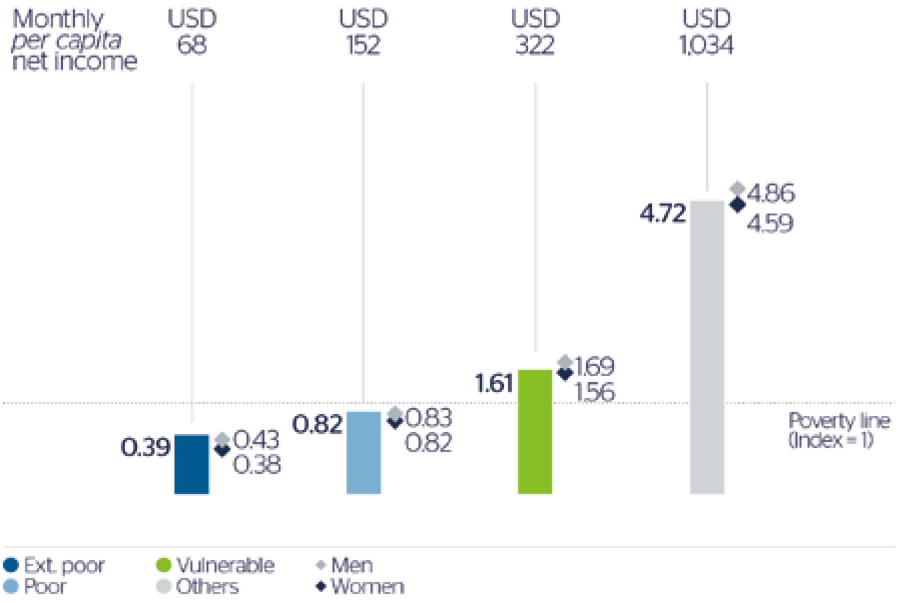
Source: Fondo Esperanza. BBVAMF calculations.

4. New credit clients' vulnerability, by gender



Source: Fondo Esperanza. BBVAMF calculations.

5. Relative net income of new clients



Source: Fondo Esperanza. BBVAMF calculations.

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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

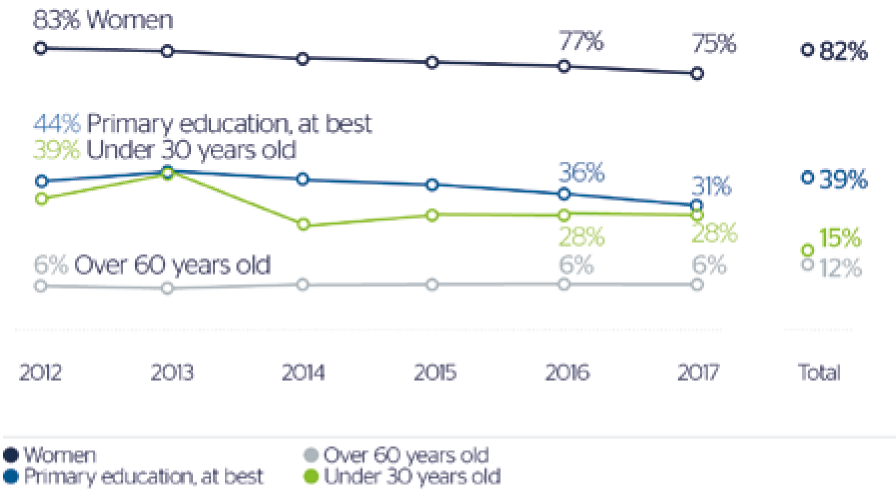
1. Our clients

- 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)*.

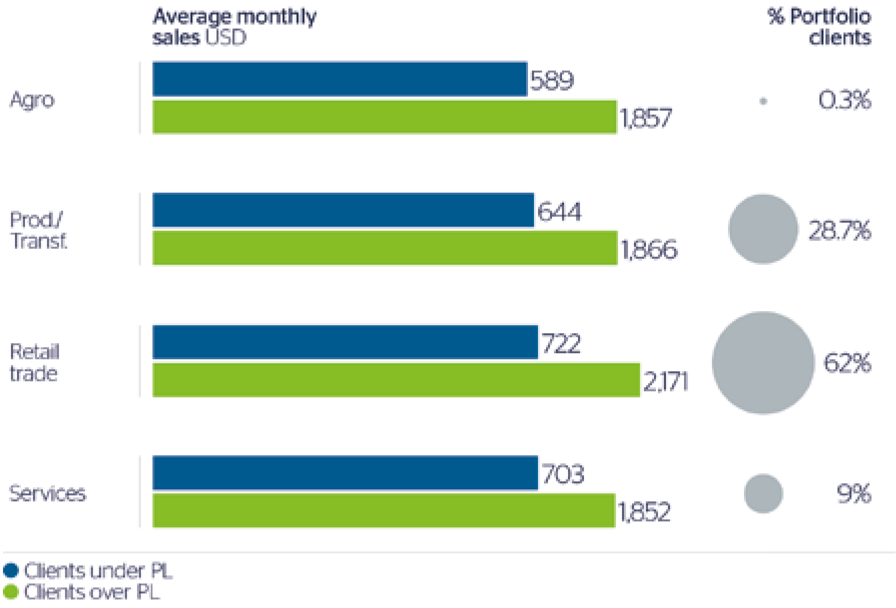
- Supporting women with integrated services (financial, educational, network creation, etc.), not only reduces inequalities, but stimulates the country's growth, productivity and competitiveness.

6. **Profile of new credit clients**



Source: Fondo Esperanza. BBVAMF calculations.

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



Source: Fondo Esperanza. BBVAMF calculations.

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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.

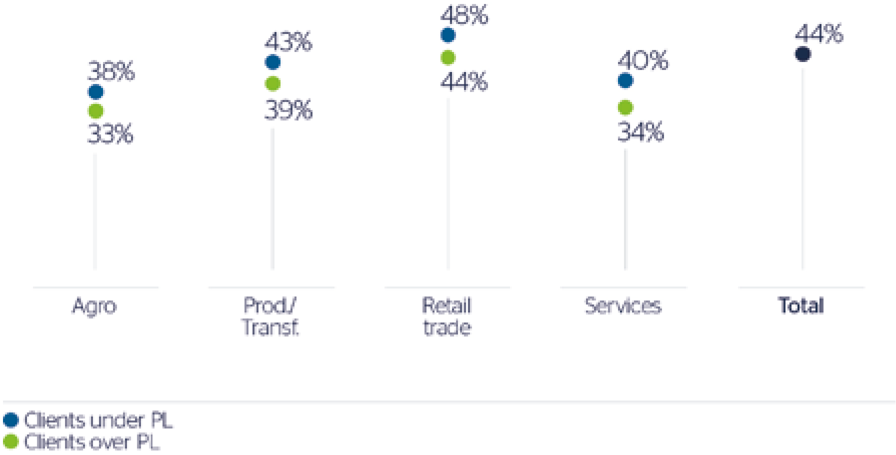
- The highest average operating costs occur in the Retail trade sector, where *poor* clients spend five out of every USD 10 on running the business, while for *non-poor* clients the amount is USD 4.5.

- 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)**



Source: Fondo Esperanza. BBVAMF calculations.

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.

1. Our clients

Where our clients are

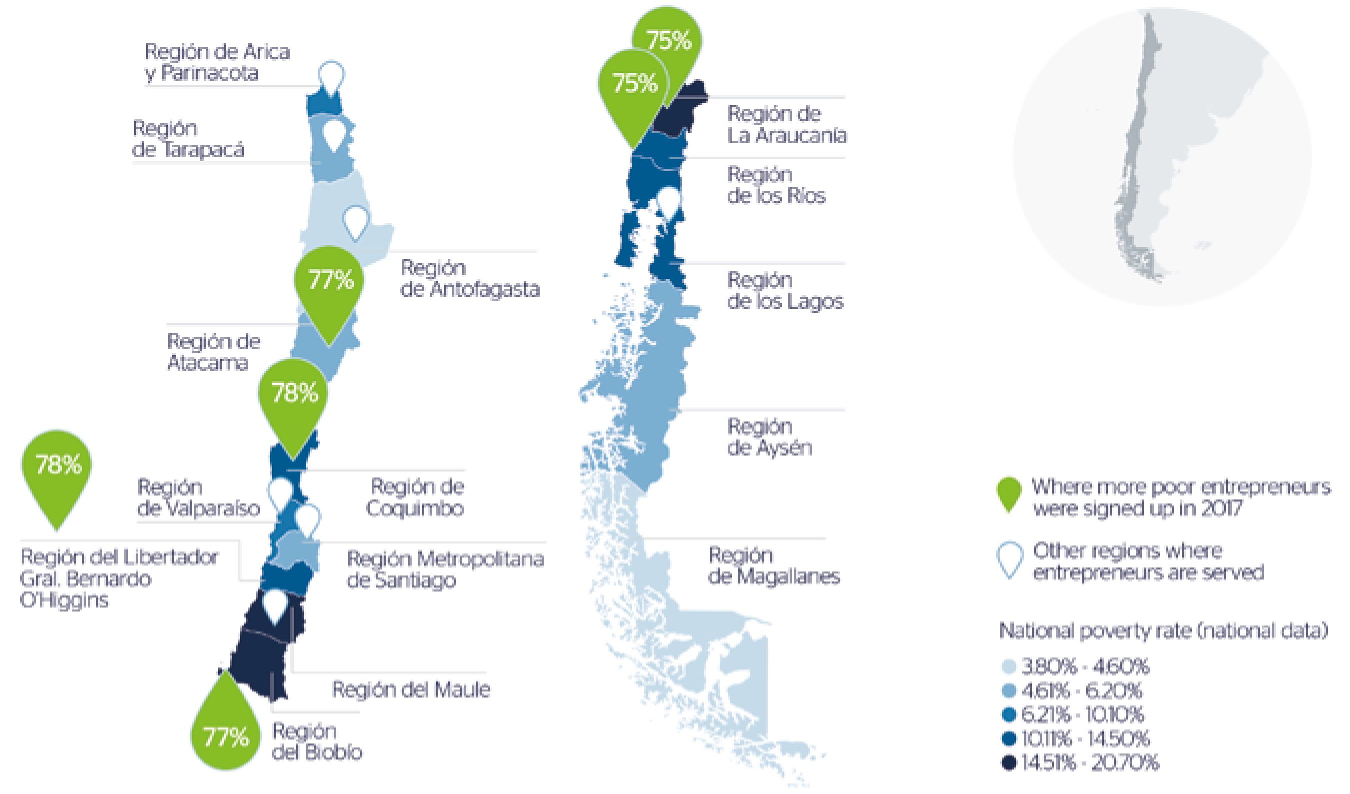
- Fondo Esperanza covers a large proportion of the country (87%), reaching the poorest regions, thus meeting the commitment of its mission to support vulnerable entrepreneurs.

- 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
77%
Región de Atacama
78%
78%
Región de Valparaíso
Región de Coquimbo
Región del Libertador Gral. Bernardo O'Higgins
Región Metropolitana de Santiago
Región del Maule
77%
Región del Biobío
75%
75%
Región de La Araucanía
Región de los Ríos
Región de los Lagos
Región de Aysén
Región de Magallanes
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.

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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

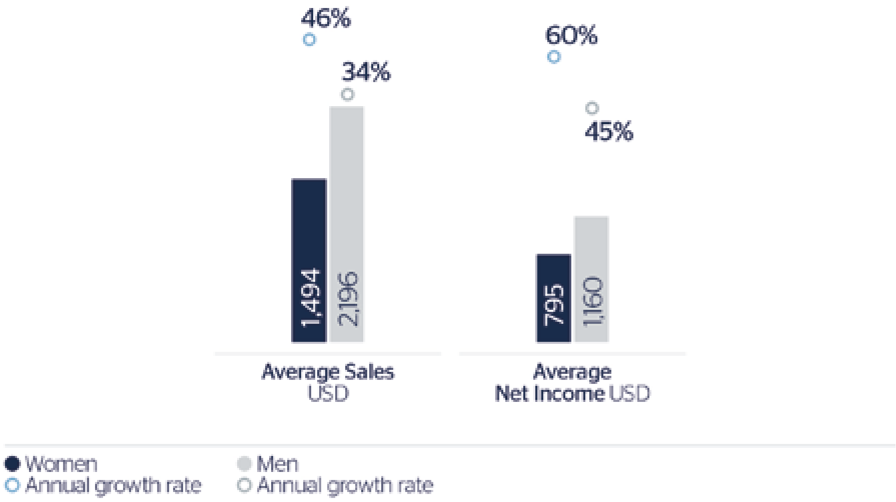
SDGs impacted

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%).

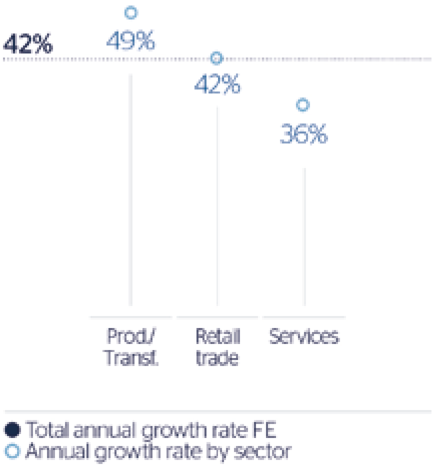
- Production and transformation is the sector with most growth since 2012, both in sales and in net incomes.

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



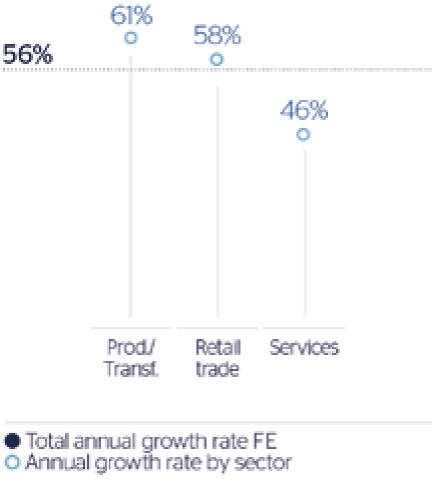
Source: Fondo Esperanza. BBVAMF calculations.

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.

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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

2. Our clients' development

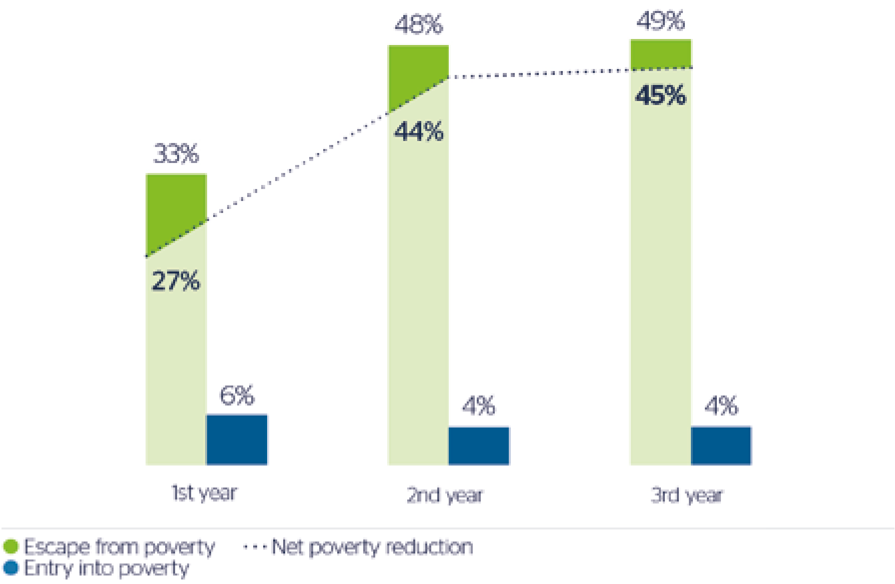
Escaping poverty

- 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.

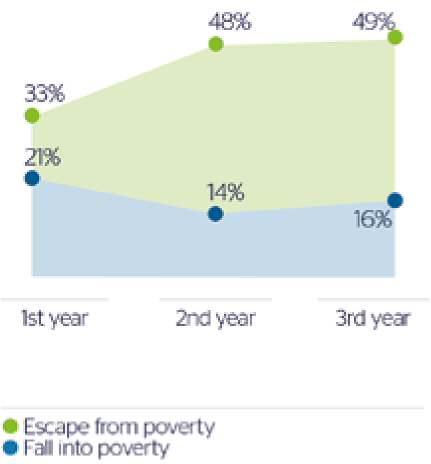
- Net *p.c.* incomes of *poor* clients develop well, given that those who were originally in a situation of *poverty*, succeed in overcoming it with time. Note that Fondo Esperanza only updates its financial information on its clients in the fifth credit cycle (after approximately a year and a half with 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



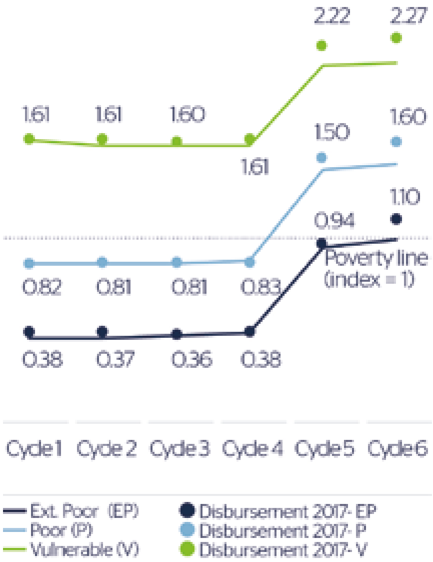
Source: Fondo Esperanza. BBVAMF calculations.

14. Clients falling into and escaping poverty



Source: Fondo Esperanza. BBVAMF calculations.

15. Net income relative to the PL



Source: Fondo Esperanza. BBVAMF calculations.

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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.

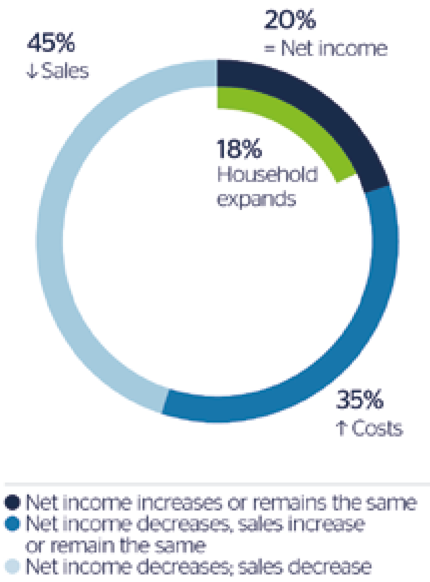
Indirect impact

- 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.

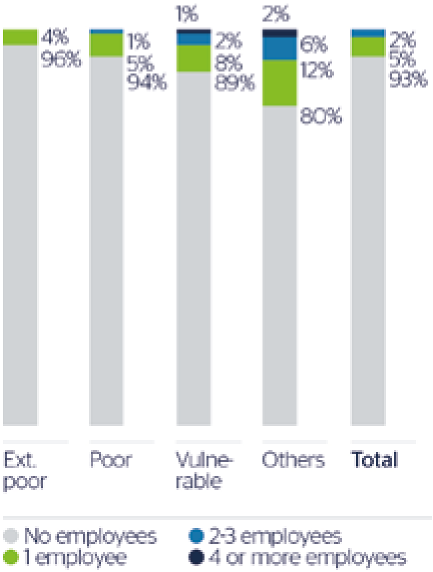
- Furthermore, after three years, 12.7% of entrepreneurs will have improved their housing situation compared to the outset, whether because they have left their parental home and are living in a rented or owned home, or because they have scaled up from a rented home to one they own, which represents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

16. Clients falling into poverty



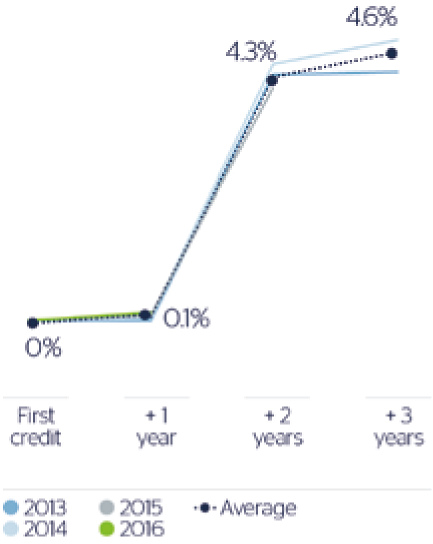
Source: Fondo Esperanza. BBVAMF calculations.

17. Micro-enterprise employee breakdown



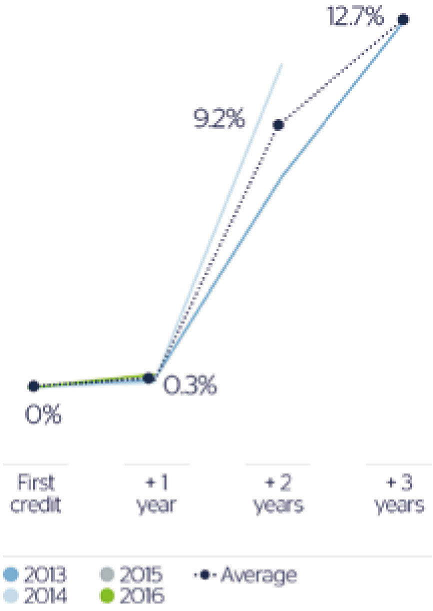
Source: Fondo Esperanza. BBVAMF calculations.

18. Job creation (by cohort)



Source: Fondo Esperanza. BBVAMF calculations.

19. Client improvement in housing (by cohort)



Source: Fondo Esperanza. BBVAMF calculations.

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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.

3. Relationships with clients

SDGs impacted

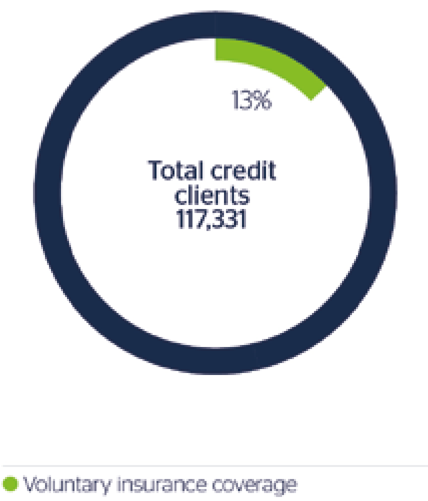
- Good results in the take-up of voluntary insurance policies over the last year is evidence of the institution's commitment to supporting clients in their overall development (13% have an insurance policy).

- 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.

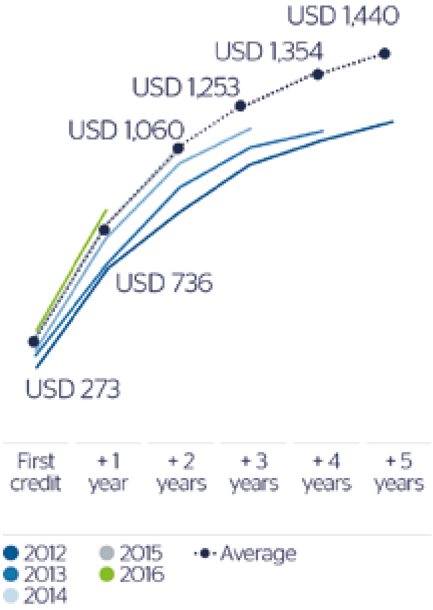
- Fondo Esperanza retains 44% of its clients after one year, and 74% of its clients sign up for a second loan.

20. Client linkage by product type



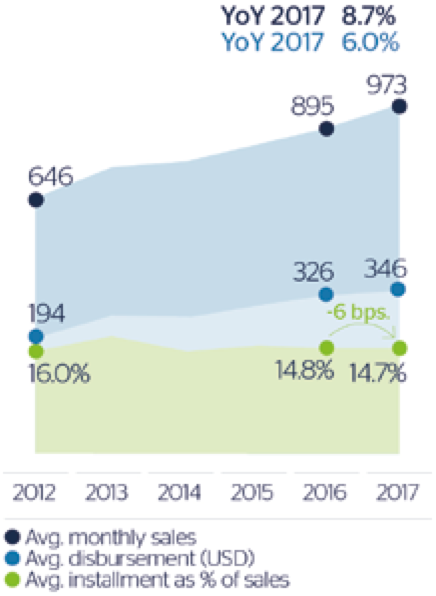
Source: Fondo Esperanza. BBVAMF calculations.

22. Average disbursement per transaction (by cohort)



Source: Fondo Esperanza. BBVAMF calculations.

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



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.

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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.

2017 Social Performance Report

Measuring what really matters

9,796
Total clients

50%
Primary education at best

Chile

Emprende Microfinanzas

57%
Women

USD 15,291,528
Amount disbursed

Emprende Microfinanzas was one of the first microfinance institutions in Chile to focus exclusively on supporting the small businesses of the low-income population, serving more than 9,000 entrepreneurs, of whom 57% are women.

Emprende Microfinanzas S.A. (Emprende) specializes in providing financing for vulnerable entrepreneurs, with the aim of promoting their economic and social development by providing products and services that have been adapted to meet their needs.

It has been operating for over 30 years, initially as a savings and loan cooperative; since 2009 it has been a member of the BBVA Microfinance Foundation Group. It was one of the first microfinance institution in Chile and has the single-minded purpose of supporting the productive and commercial activities of people on low incomes. Today its goal continues to be to contribute to the sustainable progress of vulnerable entrepreneurs through *Productive Finance*.

In 2017, Emprende delivered loans to over 9,000 entrepreneurs, 57% of whom are women. With a loan portfolio of over USD 16 million, it has a footprint in six of the country's regions (Valparaíso, Metropolitana de Santiago, O'Higgins, Maule, Biobío and la Araucanía) through its network of 20 branch offices and 148 employees.

> *With a track record of over 30 years in Chile, Emprende Microfinanzas has a footprint in six of the country's regions, through its network of 20 branch offices and over 140 employees*

Headline figures

Data at December 31st, 2017

Total clients	Nº of disbursements in 2017	Nº of employees
9,796	9,489	148

Gross loan portfolio (USD)	Average disbursement in 2017
16,214,973	1,612

Amount disbursed in 2017 (USD)	Nº of branch offices
15,291,528	20

Source: Emprende. BBVAMF calculations.

Total clients

9,796

Serving over 9,000 entrepreneurs, of whom 81% are in *vulnerability*, Emprende is staying on track as an institution dedicated to meeting the financial needs of micro-enterprises, targeting clients who find it difficult to access the financial system. 50% of current clients have primary education at best, which makes it hard for them to access the labor market, so entrepreneurship is their main source of income. Monthly *per capita* net income generated by these enterprises is USD 365, which is 80% of the current minimum wage.

Total clients

9,796

81%
Vulnerability[1]

57%
Women

35%
Rural environment

50%
Primary education at best[2]

New clients in 2017

2,371

88%
Vulnerability[1]

57%
Women

34%
Rural environment

40%
Primary education at best[2]

1,536
USD
Average disbursement[3]

365
USD
Monthly net income *per capita*

3.1
people
Household size

---

1. According to the Social Development Ministry's poverty line, new methodology. Clients whose monthly *per capita* net income (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. **Note:** The percentage of rural clients is calculated using the municipality assigned by the Casen survey as the entrepreneur's domicile.

Source: Emprende. BBVAMF calculations.

1. Our clients

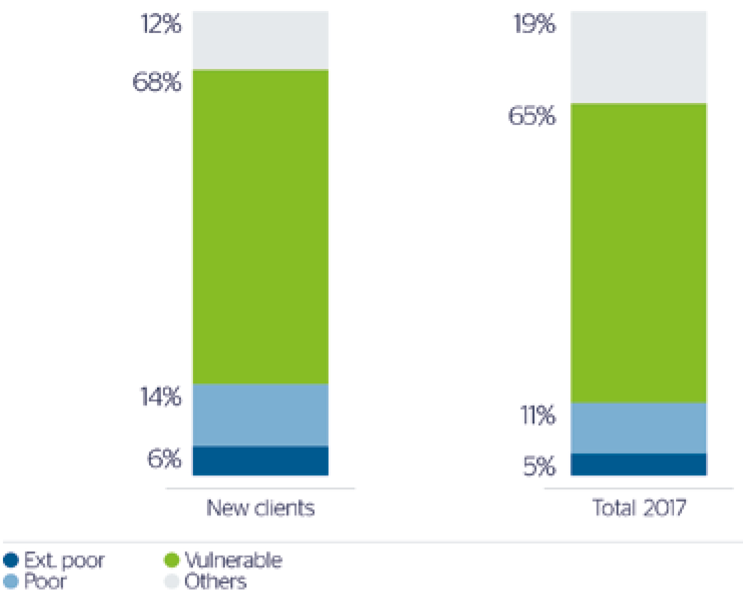
SDGs impacted

- Over the course of 2017, of the 2,371 new clients served, 57% were women entrepreneurs. Women's participation in the workforce in Chile (48% *vs.* 71% of men), the lowest in South America*, shows how difficult it is for women to join the job market and bring up their families, despite their higher levels of education. Being an entrepreneur is therefore a major opportunity for women. Emprende has a banking relationship with over 5,000 women of whom 1,359 women are new clients, thus contributing to reducing gender gaps.

Socio-economic profile

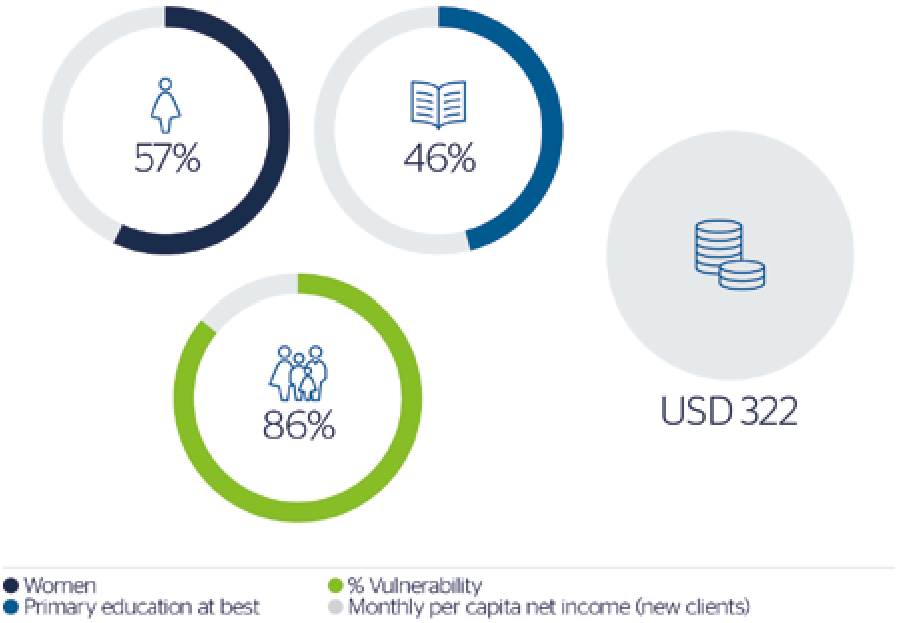
- 65% of the institution's clients are classified as *vulnerable* and 16% are under the poverty line (PL) based on Chile's Ministry of Social Development poverty lines. The figures for new clients served in 2017 have remained at similar levels, with 68% being *vulnerable* and 14% being *poor* and 6% *extremely poor*.

1. Client economic vulnerability



Source: Emprende. BBVAMF calculations.

2. Women's profile



Source: Emprende. BBVAMF calculations.

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1. According to the Social Development Ministry's poverty line, new methodology. Clients whose monthly net income (i.e. profit obtained from their microenterprise) divided by the number of members in the family unit is above 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.

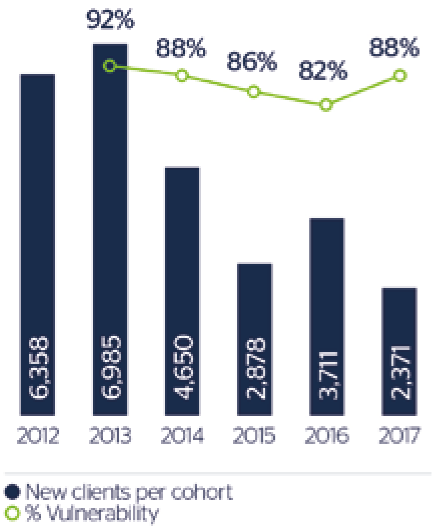
*http://www.comisiondeproductividad.cl/wp-content/uploads/2017/09/Informe_Recomendaciones_para_aumentar_la_Participacion_Laboral_Femenina_en_Chile.pdf

- Women suffer higher levels of poverty and economic vulnerability. 20% of women entrepreneurs generate revenues under the PL and 86% of them are in *vulnerability*. That is, they are at risk of falling back into poverty. In the case of men, these indicators stand at 8% and 72%, respectively. Women head up smaller enterprises and generate lower incomes than men, as a consequence of the obstacles facing them in Chile.

- Client sign-up over the year shows that women experience a disproportionately high rate of *poverty* (82%) and *extreme poverty* (77%). Meanwhile, only 41% of clients classified as *others* are women.

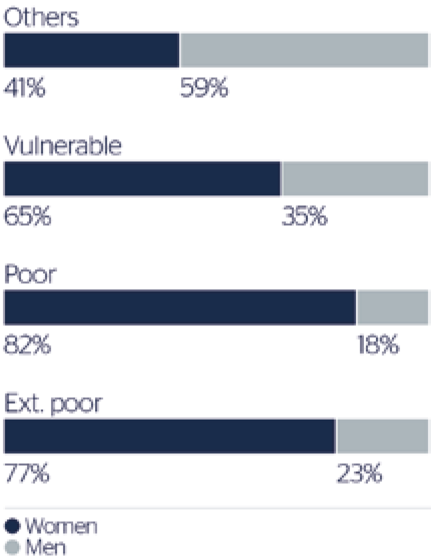
- During 2017, Emprende has made an effort to finance a higher number of clients in *vulnerability*, defining new risk policies to make this possible. This has had a positive impact; the growth of new clients has slowed, but more of these are *core* or *vulnerable* clients (88%), that is, 2,086 *vulnerable* families who over the course of the year have had the opportunity to access financing for their companies, improving their current and future situation.

3. New credit clients



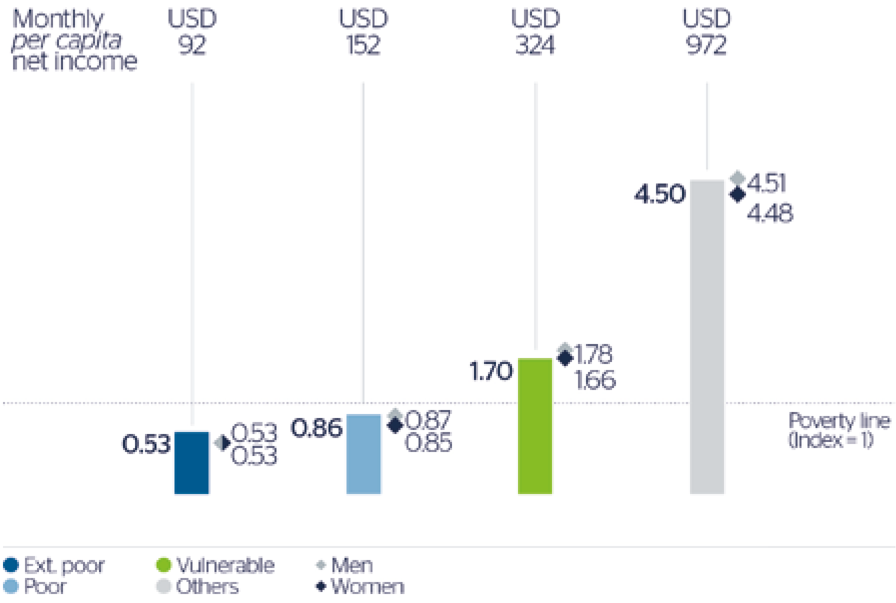
Source: Emprende. BBVAMF calculations.

4. New credit clients' vulnerability, by gender



Source: Emprende. BBVAMF calculations.

5. Relative net income of new clients



Source: Emprende. BBVAMF calculations.

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). Considers clients signed up during the year (no previous loans).

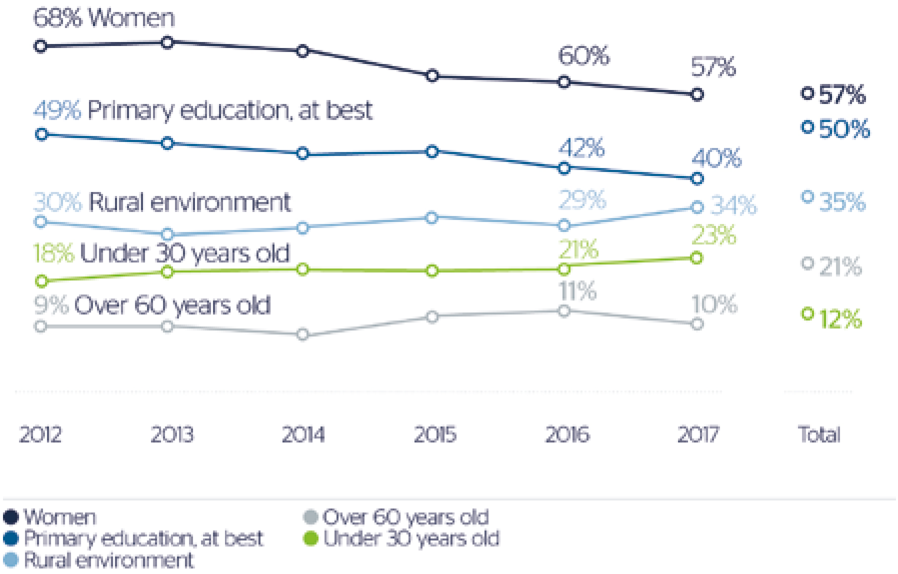
1. Our clients

- The monthly *p.c.* net incomes of clients in *extreme poverty* are USD 92, amounting to 53% of the PL. *Vulnerable* clients, who have a comparatively more stable situation but are at risk of falling back into it (1.70 times the *PL*) were the biggest group in the institution's client base in 2017 *(see graphs 1 and 5)*.

- Women entrepreneurs who have been served for the first time during 2017 have p.c. monthly net incomes of USD 322, a figure that is still far from the minimum wage, which since January 1st, 2018 has been USD 457.

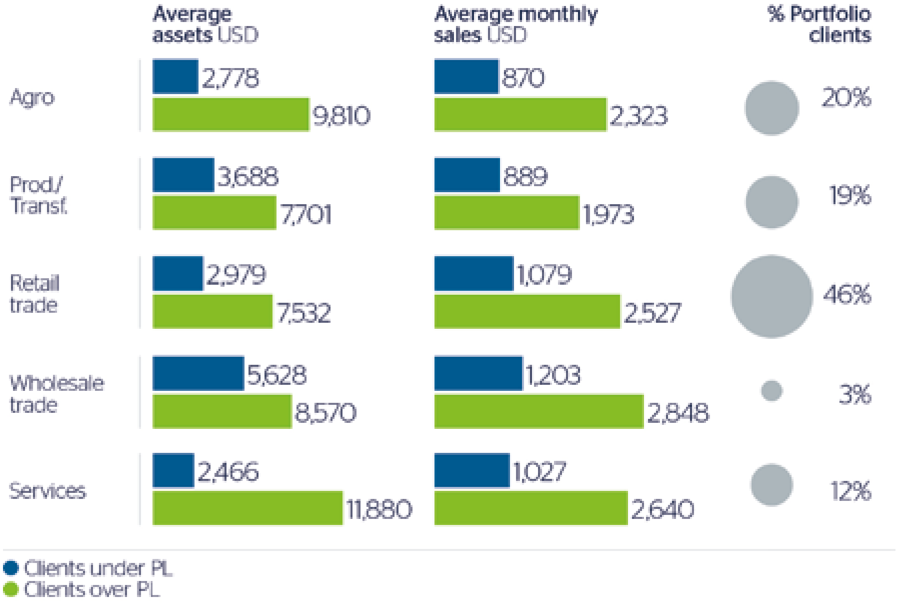
- A high proportion of loans are awarded to people with low levels of formal education. In Chile, only 29.3% of the population has not gone to secondary school or equivalent. This percentage shoots up in rural areas, where the population over 25 that has attended primary school at best rises to 57.5% **. In Emprende, 40% of clients served in 2017 only have basic education, and this percentage rises to 50% if we consider all current clients. So, Emprende endeavors to generate opportunities for inclusive growth and development, for those with greater difficulties.

6. **Profile of new credit clients**



Source: Emprende. BBVAMF calculations.

7. **Average monthly sales and assets - clients under and over the poverty line (PL)**



Source: Emprende. BBVAMF calculations.

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6. Covers 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.

**http://observatorio.ministeriodesarrollosocial.gob.cl/casen-multidimensional/casen/docs/CASEN_2015_Resultados_educacion.pdf

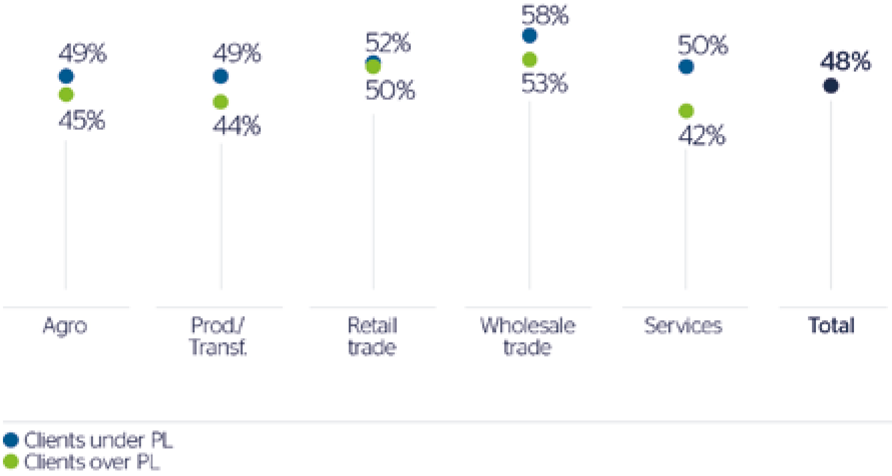
Profile of their businesses

- Emprende clients mainly work in the Retail trade sector (46%), although the institution serves clients from all sectors. The second most popular sector is Agro, where 20% of our clients work.

- The differences in average sales and assets by sectors for clients under the PL and over the PL are high. *Poor* clients report approximately 40% of the level of sales and assets of *non-poor* clients. However, the percentage of costs over sales reveals that there are no major efficiency improvements between the two sets of clients, except in the Services sector, where *poor* clients report ratios that are 8 percentage points higher than those of *non-poor* clients.

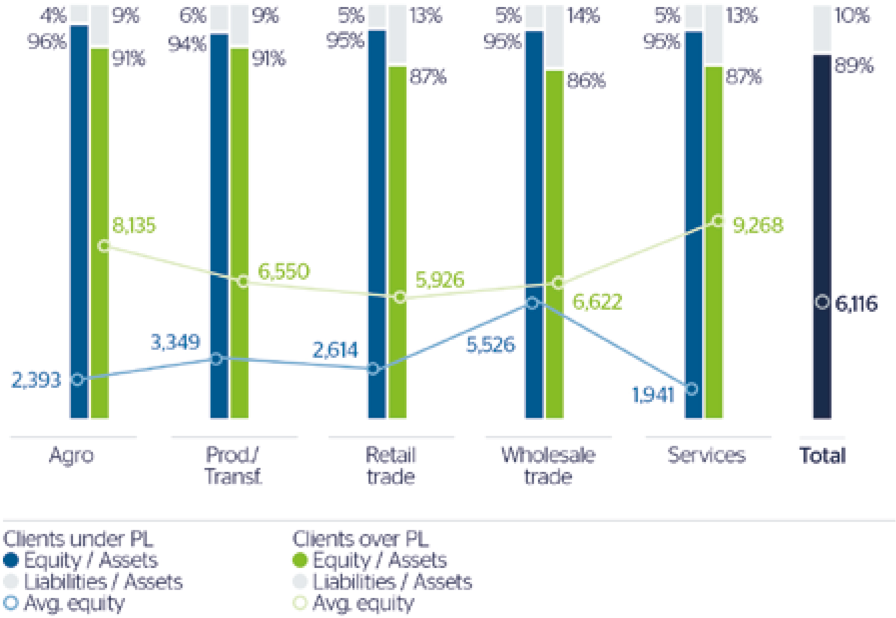
- In the institution, entrepreneurs with incomes over the PL who work in Trade and Services are more highly leveraged, at about 13% of their assets. In the case of *poor* clients, there is less leveraging, particularly among Agro clients, where a higher percentage of *vulnerable* clients work (84% of Agro clients are in *vulnerability*).

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



Source: Emprende. BBVAMF calculations.

9. **Assets, liabilities and equity, by sector - clients under and over the poverty line (PL)**



Source: Emprende. BBVAMF calculations.

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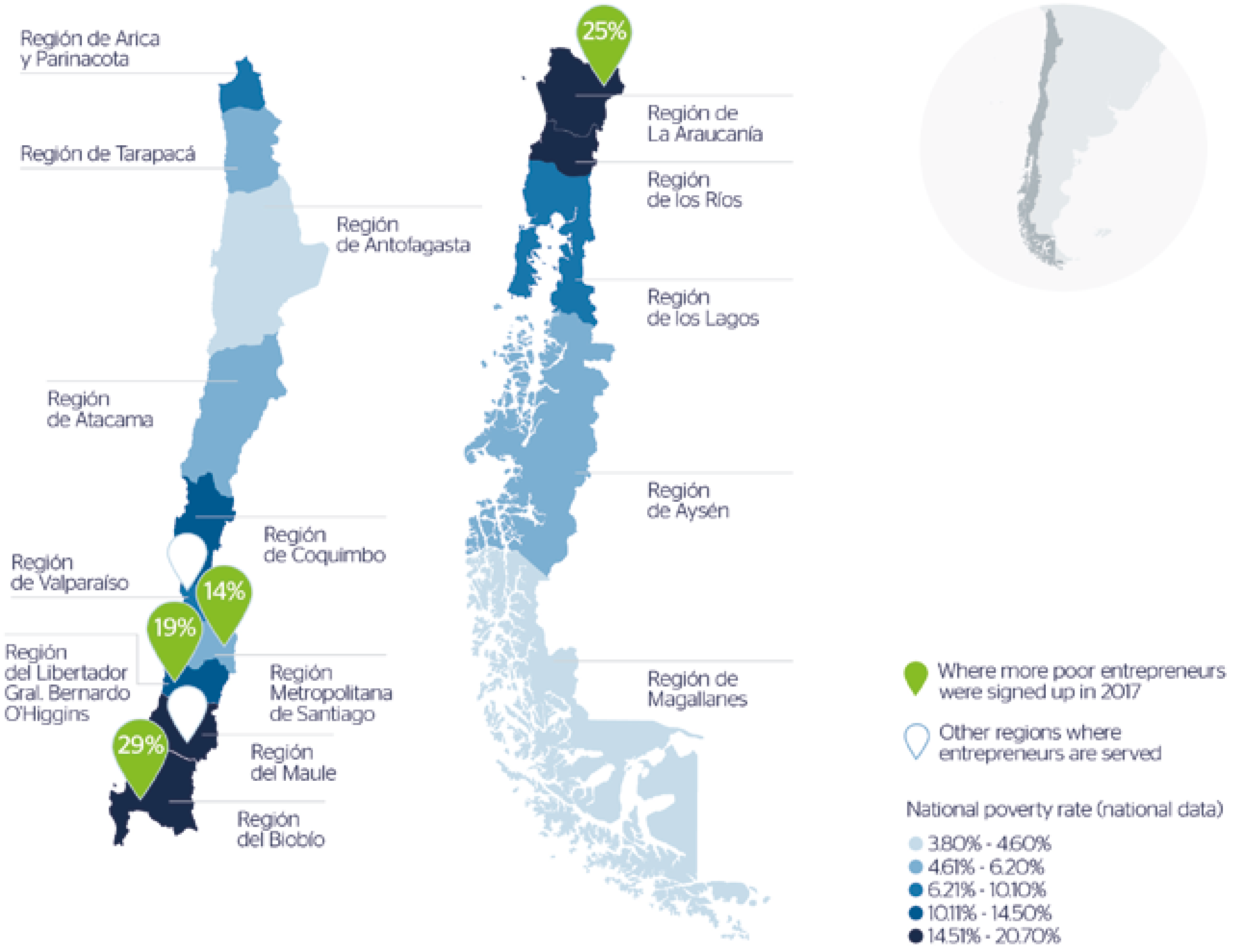
8. Average sales in each sector, calculated as the average of each client's ratio. Segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. Covers clients current at 12.31.2017. **9.** Assets, liabilities and equity, together with their ratios, for each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. The loan granted by the institution is not included in liabilities. Covers clients current at 12.31.2017.

1. Our clients

Where our clients are

- Emprende is active in six regions in Chile, where poverty rates according to the Ministry of Social Development are high, or there are large pockets of poverty. During 2017, Emprende has expanded its *poor* client base in Biobío and Araucanía by 29% and 25%, respectively, regions where the poverty rate stands at 16.2% and 20.7%.
- These two regions represent 41% of all Emprende's clients, positioning the institution as a strategic partner in the development of entrepreneurs in these regions, contributing to the reduction of poverty blackspots.

10. **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 Coquimbo
Región de Valparaíso
14%
19%
Región del Libertador Gral. Bernardo O'Higgins
Región Metropolitana de Santiago
29%
Región del Maule
Región del Bioblo
25%
Región de La Araucanía
Región de los Ríos
Región de los Lagos
Región de Aysén
Región de Magallanes
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: Emprende. BBVAMF calculations.

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10. Proportion of *poor* households in the region (2015). Ministry of Social Development. CASEN census data. The four regions with the highest percentage of *poor* new clients served in 2017 are shown.

2. Our clients' development

SDGs impacted

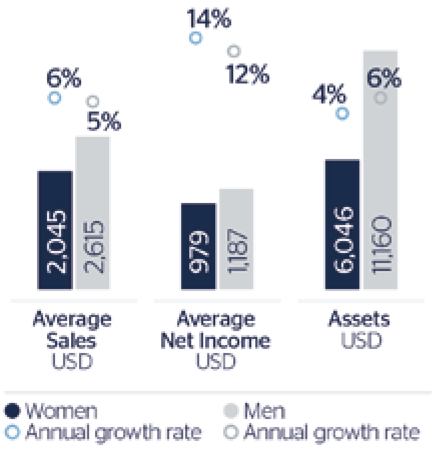
Growth of their businesses

- There are differences between enterprises run by women and those run by men. As their businesses grow, their relative growth rates vary. So, women entrepreneurs, with average current monthly sales of USD 2,045, report an average growth of 5.8%, whereas men, with higher average monthly sales of USD 2,615, grow a little more slowly (5.5%). Although their net incomes, at USD 1,187, are higher than those of women, men's economic growth is 1.6 percentage points less than these, with women reporting expansion rates of 13.9%.

- Women's average sales are 22% less than those of men (male/female gap), but when it comes to net incomes, this gap diminishes to 18%, indicating greater efficiency on the part of women, perhaps due to the type of business.

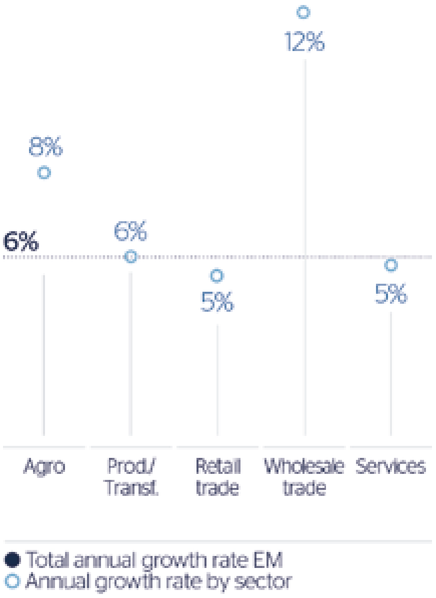
- Unbundling the figures, we can see a wider variety of behavior patterns in the business variables depending on the sector. The Agro sector stands out for its growth in net income, and the wholesale Trade sector for its performance in sales and assets.

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



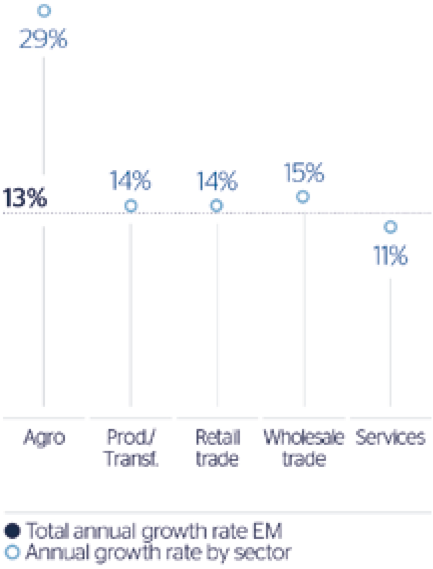
Source: Emprende. BBVAMF calculations.

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



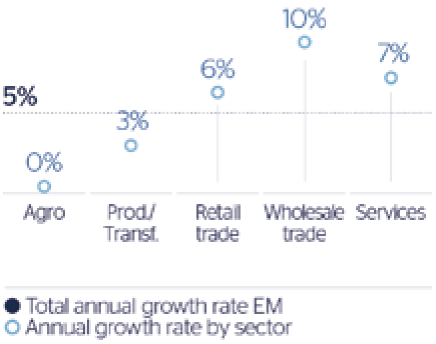
Source: Emprende. BBVAMF calculations.

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



Source: Emprende. BBVAMF calculations.

14. Avg. growth rates of assets, by sector



Source: Emprende. BBVAMF calculations.

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11. Current clients at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. **12, 13 & 14.** Current clients at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector.

2. Our clients' development

Escaping poverty

- Clients in *extreme poverty* need two loans to overcome the PL; *poor* clients can escape after one.

- Disbursements over the year indicate that the relative incomes of clients who have renewed over the year are higher than historical records, a forward indicator of an improvement in clients' average growth.

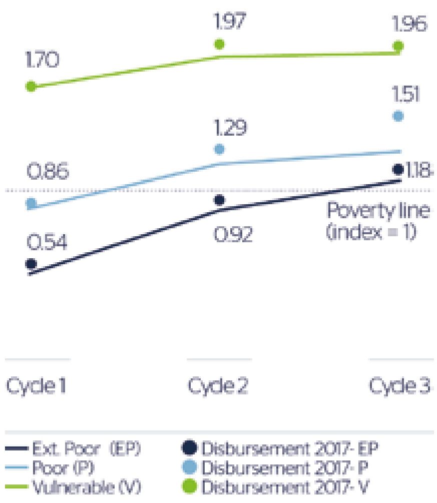
- 60% of clients who fall into poverty do so because their revenues and net incomes fall. The remaining 40% fall into poverty because of changes in their cost structure, when they have to deal with increased costs associated with their business or their household.

Indirect impact

- Emprende clients are not the only beneficiaries from the access they have to credit; the surroundings in which they operate benefit too, bearing in mind that 21% hire at least one employee.

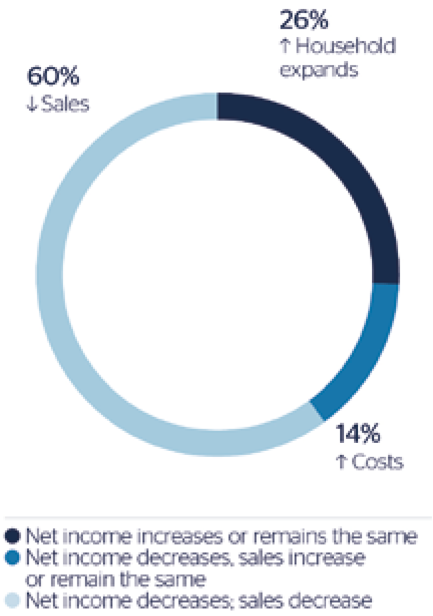
- Furthermore, after a year of banking with the institution, 2.1% of entrepreneurs succeed in improving their initial situation. In other words, they hire an additional worker, and after five years the improvement reaches 10.4% of entrepreneurs.

15. Net income relative to the PL



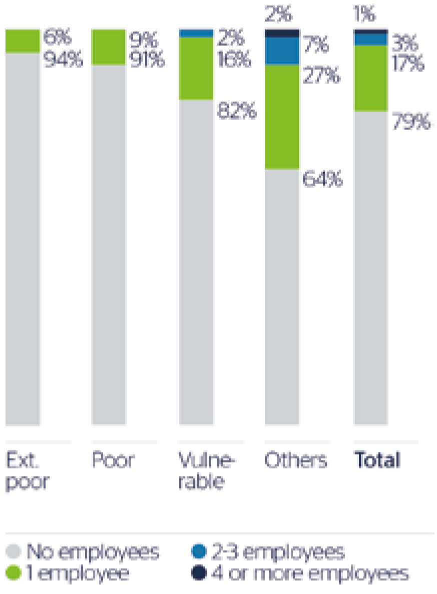
Source: Emprende. BBVAMF calculations.

16. Clients falling into poverty



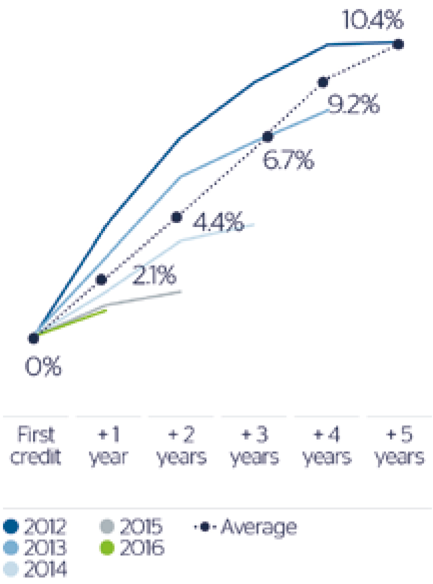
Source: Emprende. BBVAMF calculations.

17. Micro-enterprise employee breakdown



Source: Emprende. BBVAMF calculations.

18. Job creation (by cohort)



Source: Emprende. BBVAMF calculations.

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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 (their first loan) and shows the progress of monthly *p.c.* net income in each credit cycle, relative to each country's official poverty line. Relative *per capita* monthly net income takes the value of one when it is equal to the poverty line. **16.** Clients who have been current at some point in 2017 and have updated their data in their last 12 months with the institution. Shows those clients who at the outset were classified as *non-poor* and who are currently classified under the poverty line (PL). **17.** Number of employees working for clients current at 12.31.2017. **18.** Increase in the number of employees compared to at the outset, for clients current at 12.31.2017 in each cohort. Averages from cohorts 2012-2017.

3. Relationships with clients

1 NO POVERTY
2 ZERO HUNGER
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

SDGs impacted

- Client development is linked to a more extensive product offering, and this is apparent in the penetration of insurance, which is now bought by 49% of active credit clients.

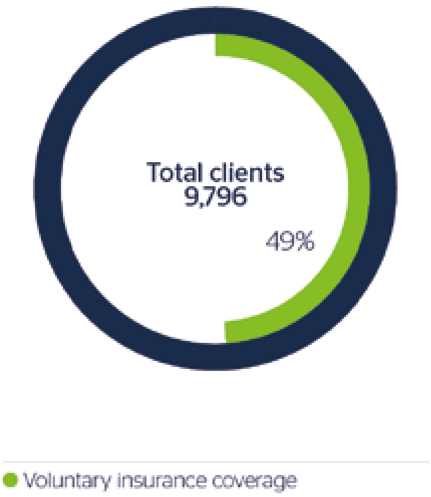
- Maintaining its slow but steady upward direction, the average new client loan is now USD 1,536.

- As clients demonstrate that they can keep abreast of the financial commitments taken on with the institution, they are offered access to more loans, for higher amounts, with the amount rising from USD 884 to USD 2,477 by the fifth year.

- Emprende manages to retain 64% of its clients after a year with the institution

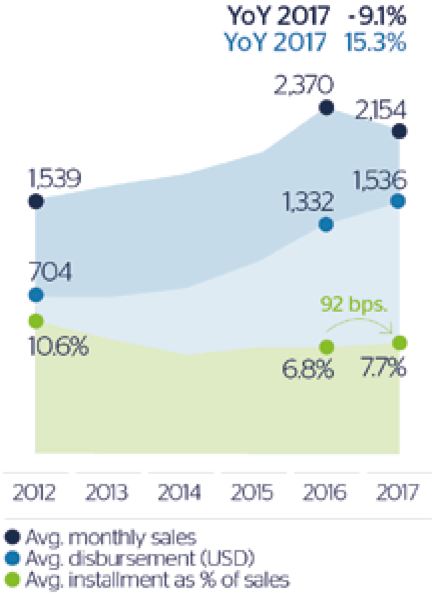
- After the first loan, 55% of clients decide to sign up for a second one.

19. **Client linkage by product type**



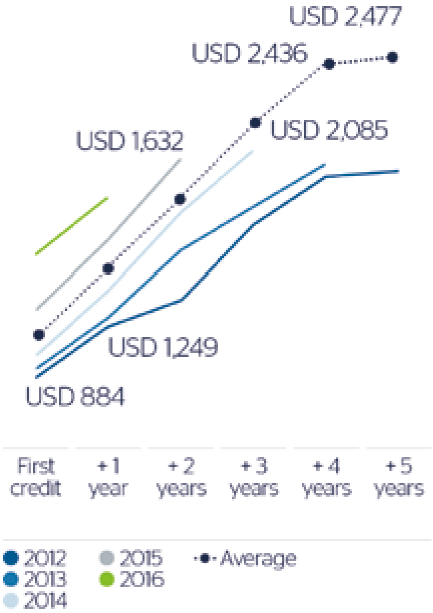
Source: Emprende. BBVAMF calculations.

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



Source: Emprende. BBVAMF calculations.

21. **Average disbursement per transaction (by cohort)**



Source: Emprende. BBVAMF calculations.

22. **Credit client retention and recurrence**

Retention	
Start	100%
+1 year	64%
+2 years	35%
+3 years	22%
+4 years	16%
+5 years	12%

Recurrence		**Distance (days)**
Cycle 1	100%	
Cycle 2	55%	313
Cycle 3	35%	302
Cycle 4	24%	294
Cycle 5	17%	278
Cycle 6 or +	13%	262

Source: Emprende. BBVAMF calculations.

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19. Clients current as of 12.31.2017. **20.** 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. **21.** Variation 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. **22.** '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.

Note: The percentage of rural clients is calculated using the municipality assigned by the Casen survey as the entrepreneur's domicile.

Macroeconomic analysis

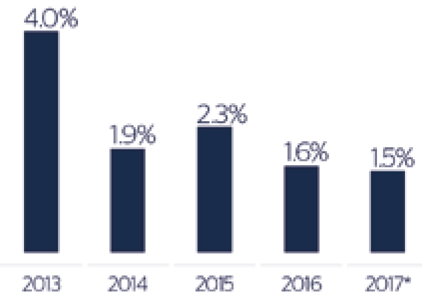
Chile

The economy's growth has slowed, reporting less momentum in private investment and in exports. Unemployment has remained relatively stable because of the higher participation of self-employment, which accounts for the limited improvement in terms of poverty and income distribution levels.

Economic context

Economic growth: sharp fall in investment and construction

GDP growth (var)



Source: Central bank (Banco Central de Chile).
* Estimates BBVAMF Research.

In 2017 the Chilean economy posted its most sluggish growth for the last eight years, at just 1.5%, fundamentally because of poor performance in the first semester, when growth posted at 0.6%, with the first quarter being the worse of the two in this economic adjustment cycle[1]. The impact of the strike in the *La Escondida* mine, in the first quarter, translated into a 14.2% fall in the Mining sector.

In the second half the economy showed greater momentum, with growth of 2.4%, driven by stock accumulation and private consumption.

Over the year, consumption grew by 2.7%, but investment dropped by 2.8% triggered by Construction and other works, which as a sector shrank by 7% from 2016, because of the slowdown in public spending.

By sectors, the major impact of the strike in the first quarter caused the Mining sector to finish the year down by 2%, despite the recent recovery, while the Construction sector was also down, by 3.6%.

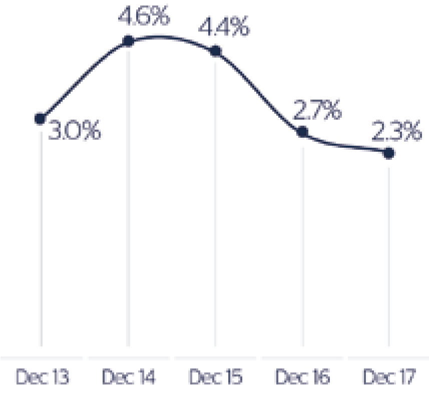
Real exchange rate appreciation in 2017 caused tradable sectors to grow more slowly, but boosted goods imports, which were up by 6%, led by imports of agricultural products, which rose by 12%, and industrial products, up by 7%.

This accounts for the upturn we see in the Trade sector, which posted a 4.8% variation from 2016, making it the sector which contributed most to the total growth of the economy over the year, accounting for 26% of the whole.

The Chilean economy has a growth potential close to 3%, which puts the output gap at -1.5%, indicating that excess capacity has increased, which has significant implications for market factors and for inflation.

Inflation: the lowest for five years

Inflation (CPI var)



Source: Central bank.

Inflation closed 2017 at 2.3%, the lowest for the last five years, in an environment of high volatility, having been running at below the Central bank's tolerance range since June (set at around 3%, plus or minus 1 percentage point). The peso's appreciation and the behavior of the price of food were the two factors determining this performance.

In 2017 the *Tradables* index rose by 1.7% year on year, while the *Non-Tradables* index registered a variation of 3.0%. The Foodstuff index increased by 2.5% over 12 months, making it one of the most volatile components, together with *Energy*, the index for which jumped by 5.3% over the year.

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[1] Conducted to the end of November 2017. All estimates by BBVAMF Research.

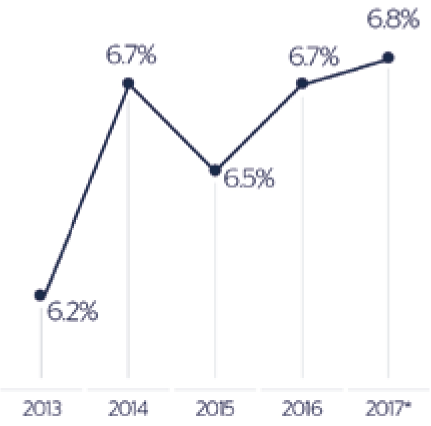
Economic context

When *Foodstuffs* and *Energy* are excluded, because they have a short-term impact but are less important for medium-term inflation, the rise in 2017 comes to 1.9%, breaching the Central bank's lower threshold and showing that there has been a degree of decoupling from medium-term inflation expectations.

The increase in the employment figures is a consequence of a 4.8% jump in the self-employed, while waged workers grew by around 1.2%

Labor market: the slowdown weakens the job market

Unemployment rates (% of the workforce)



Source: ILO. * Estimates BBVAMF Research.

In 2017, the unemployment rate was 6.8%, an increase of 0.6 percentage points (p.p.) over 2016. This upturn in unemployment is a result of the 2% increase in the number of workers in employment, lower than the 2.5% rise in the workforce. This means that the numbers of the unemployed grew by 6.5%, while the participation and occupation rates came to 60% and 56%, respectively.

The increase in the employment figures is a consequence of a 4.8% jump in the self-employed, while waged workers grew by around 1.2%. Note the sharp drop (8%) in unpaid work by family members. Part-time workers posted an uptick, representing 10% of all workers in employment. The fastest growing segment is made up of those who are obliged to work for fewer hours than they would like.

For this reason, at the end of 2017, the labour force pressure rate, the combination of both the unemployed and the underemployed, has increased to 12.7%, an uptick of 0.7 percentage points.

From a gender perspective, women led the positive trend in the rise of employed workers in absolute terms, even though the rate of female unemployment was 7%, a rise of 0.3 percentage points, because the 3% increase in employed women was lower than the 3.4% rise in the female workforce.

The rate of women's participation was the highest since 2010, reaching 49%, an improvement of 0.6 percentage points over 2016. In 2017, the unemployment rate increased in eight regions and fell in seven. The largest increases were in Los Lagos, Arica, Parinacota and O'Higgins, while the severest falls were recorded in Antofagasta, Valparaíso and Aysén.

Financial inclusion: strong progress, driven by the state bank

According to official data[2], financial inclusion in Chile, measured as the percentage of adults with a financial product, rose to 98%. The most popular financial products were those associated with managing cash and savings: 69% of adults have one or more of these products, whereas only 4% have a term deposit, and only 15% possess a current account.

Consumer credit has a large weighting in the whole. Around 34% of adults have some kind of banking credit card, while the proliferation on non-banking credit cards has brought these to the same level as banking cards. In the remaining credit products, 7% have taken out a housing product, while 18% are paying a loan in installments.

13% of clients only have cash management products, 14% only have savings products, and 3% only have one or more credit product. Those with all three types of products account for 33%.

In the case of Chile, the state bank has been a determining factor in the major expansion of financial inclusion in recent years. 87% of banked adults have a product with this institution, and of these, 35% only bank there.

The key product that has made this progress possible is the *CuentaRUT*, a sight deposit account, with linked debit and ATM services, issued by Banco Estado. The distinguishing feature of the product is that the account identification code coincides with the client's *RUT* (a unique state identification number), so the only requisite needed to open an account is an identity card.

When the data are looked at by age groups, we see that most of the excluded population is under 30 years old. In view of the fact that they can open an account of this kind, their exclusion must be due to ignorance about financial products, a lack of interest in acquiring a product to manage cash, underemployment or low income, among other reasons.

When we look closely at financial inclusion in Chile, we notice that 58% of those who are banked display a higher degree of financial inclusion, that is, possess at least one product with an income requirement. The remaining 40% have basic financial inclusion, of which 9% only have the *CuentaRUT*.

89% of the services provided by the state bank do not have income requirements, with the *CuentaRUT* accounting for 23% of all this institution's products. 80% of the clients of commercial banks have products with income requirements. 92% of the clients of other financial product providers have products with income requirements, most of them being credit-linked products.

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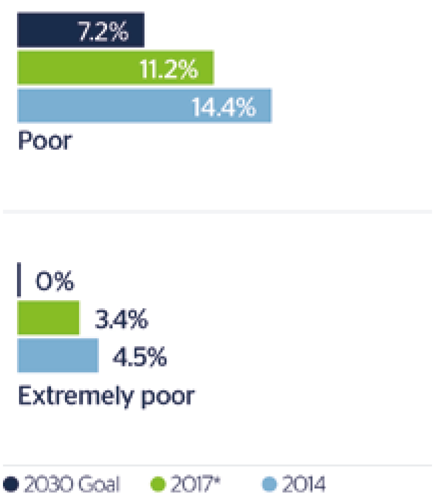
[2] Financial Inclusion in Chile report/SBIF.

Social environment

Poverty: the reduction slows

Poverty (% of the population)



Source: CASEN survey.
* Estimates BBVAMF Research. UN.

There has been an improvement in distribution as a result of the monetary transfers made by the public sector to the lowest-income households

In 2017, around 1.9 million people, equivalent to 11.2% of the population, were in a situation of monetary poverty in Chile[3], of whom 600,000 were in extreme poverty, 3.4% of the population. Poverty has shrunk by 0.5 percentage points since 2015, while extreme poverty has dwindled by just 0.1 percentage points. In urban areas poverty is 10.0%, bringing the gap with rural areas, where it is suffered by 20.7% of the population, to 10.7 percentage points.

Growth has slowed since 2011 from 6.1% to 1.5% in 2017. There has been less dynamism in private investment and exports. Unemployment has stayed relatively stable, due mainly to the increase in self-employment, since waged employment has lost impetus, factors that account for the slowdown in the improvement of poverty rates. The growth in revenues explains 65% of the fall in poverty, while the effect of redistribution accounts for the remaining 35%.

According to the latest information from the CASEN survey (the most recent official figures date from 2015), the proportion of the population in a situation of income poverty was 11.7%, a drop of 2.7 percentage points since the 2013 survey, when poverty affected 14.4%. Over the same period, the extreme poverty rate fell by 1 percentage point, from 4.5% to 3.5% of the population.

Similarly, in terms of households, the poverty reduction trend has remained stable over the years. In 2015, 10.4% of households were in this situation, a significant fall from 2013, when income poverty affected 12.8% of all households. 70% of households in a situation of poverty contained children and adolescents, 40% were single-parent and in 49% the head of the household was a woman.

From a regional viewpoint, there are some important geographical disparities in the monetary poverty rates. The population in this situation fluctuated between a rate of 4.4% in the Magallanes region and 23.6% in La Araucanía.

Between 2013 and 2015, poverty fell in 14 of the 15 regions, the only exception being Antofagasta, where it increased from 2013, but this is the second least poor region in the country.

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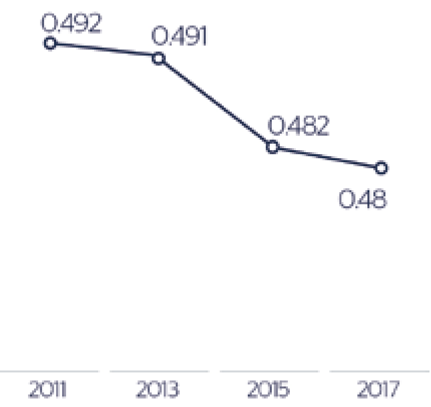
3. All estimates by BBVAMF Research.

Reduction in inequality

Inequality (Gini index)



Source: CASEN Survey.
* Estimates BBVAMF Research.

In Chile income distribution inequality continued in 2017. The Gini index, that takes values between 0 and 1, ranging from absolute equality to maximum inequality), stood at 0.480, showing a slight improvement compared to the levels of 2015, when it was 0.482. An analysis of the concentration in income distribution shows that in 2017 there was a drop in the combined participation of deciles IX and X (the wealthiest) compared to 2015, from 48.4% to 48.2% of total income.

If we compare the aggregate income in the same period of the first two deciles (the poorest), we see that their participation has improved slightly, rising from 5.9% to 6.3% of all income. We can verify that there has been an improvement in distribution as a result of the monetary transfers made by the public sector to the lowest-income households, which show a 1.3 percentage point improvement between the participation of their independent income and the participation of their monetary income, after receiving net monetary transfers.

> *One in every two women of working age is in the labor force, the largest proportion since 2010*

Other dimensions

When we look at the progress made in education, we see that the population over 15 years old has completed an average of 11 years of schooling; this represents an average increase of two years over the levels attained in 1990. However, the gender gap persists: men in the same age segment stayed at school for 0.3 years longer than their female contemporaries. Although 57% of people aged 25 or more completed obligatory education up to the age of 12, 30% have no formal education or did not complete primary school.

Turning to health, 95% of the population is signed up to a healthcare system, an increase of 9 percentage points since 1990. Only 81% of those who are not affiliated to a healthcare system undergo treatment when there is a medical problem, whereas 94% of those who are covered by a healthcare system, whether public or private, undergo treatment when needed.

On the issue of housing, the equivalent of 8% of the current housing stock is needed to meet the demand from people living in housing that is beyond repair or in overcrowded conditions. The first two income quintiles account for nearly 60% of these types of housing needs, while in the fifth quintile only 6.5% suffer these problems.

25% of the current housing stock needs to be upgraded, repaired or enlarged, while 20% of the population reports the permanent presence of environmental problems in their home surroundings.

2017 Social Performance Report

Measuring what really matters

17,528
Total clients

40%
Rural environment

Panama

Microserfin

43%
Women

USD 22,711,828
Amount disbursed

A committed team of 265 professionals works continually in Microserfin to reduce the poverty and vulnerability of Panamanians, especially those in rural areas.

Soluciones de Microfinanzas S.A. (Microserfin) has a strong track record in Panama. Its purpose is to improve the living standards of low-income entrepreneurs and their families through financial inclusion. Every day, 265 people drive the institution onward, committed to the development of their clients, to putting an end to poverty and to sowing prosperity in vulnerable population segments.

Microserfin covers the entire country, particularly in rural areas where it serves entrepreneurs in their agricultural businesses, whom it guides from the outset and over time, with personalized advice from its specialist officers.

It is also on *Panama's Strategic Entrepreneurial Board,* which brings together key institutions from the public and private sectors and also from the academic community to stimulate entrepreneurship. This *Strategic Board,* coordinated by the Panamanian government's *Micro, Small & Medium-sized Companies Authority* (AMPYME in the Spanish acronym), develops programs for entrepreneurs and businessowners.

Microserfin received a prize at the IX edition of the Panamanian Credit Association's *APC Awards*, which every year honors those financial and commercial institutions with the most comprehensive and accurate reporting standards, with the subsequent benefit to their clients, the system itself and the country's economy.

In 2017 Microserfin granted over USD 22 million in productive credits, to generate opportunities for social and economic development through microfinance.

Microserfin is a member of Panama's Strategic Entrepreneurial Board, *which brings together the country's key public, private and academic bodies to stimulate entrepreneurship*

Headline figures

Data at December 31st, 2017

Total clients

17,528

Nº of disbursements in 2017

14,464

Nº of branch offices

13

Gross loan portfolio (USD)

28,735,626

Average disbursement in 2017

1,570

Nº of employees

265

Amount disbursed in 2017 (USD)

22,711,828

People receiving financial education

5,876

Source: Microserfin. BBVAMF calculations.

Total clients

17,528

Over the course of 2017, Microserfin kept its focus on serving low-income entrepreneurs in Panama: of the more than 5,000 new clients served, 72% were in *vulnerability*. The institution has also made a particular effort to reach clients in remote areas: 40% of its 17,000 clients are in rural areas where they face more economic and financial obstacles, as well as barriers to accessing healthcare and basic infrastructure. Furthermore, low levels of education condition access to jobs and training, meaning that becoming an entrepreneur may be the route to earning an income.

Total clients

17,528

72%
Vulnerability[1]

43%
Women

40%
Rural environment

30%
Primary education at best[2]

New clients in 2017

5,037

72%
Vulnerability[1]

42%
Women

44%
Rural environment

23%
Primary education at best[2]

1,130
USD
Average disbursement[3]

313
USD
Monthly net income *per capita*

3.0
people
Household size

---

1. According to the Economy and 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 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: Microserfin. BBVAMF calculations.

1. Our clients

SDGs impacted

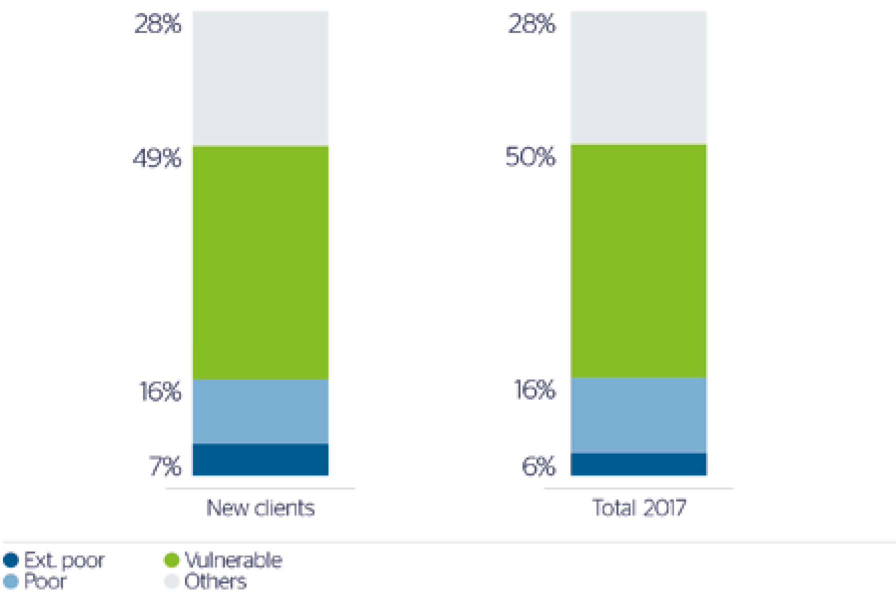
Socio-economic profile

- 72% of Microserfin clients are in *vulnerability* and 22% generate monthly *per capita* net incomes below the poverty line (PL). Our interest in serving low-income clients has remained unchanged, with this indicator staying the same in 2017 from the year before.

- Encouraging entrepreneurship among women is particularly important, since they start from lower income levels: 26% of women are *poor*, compared to 19% of men. For that reason, to achieve a reduction in inequalities and foster inclusive growth, it is important to finance women so that they have their own source of income. 43% of all clients are women.

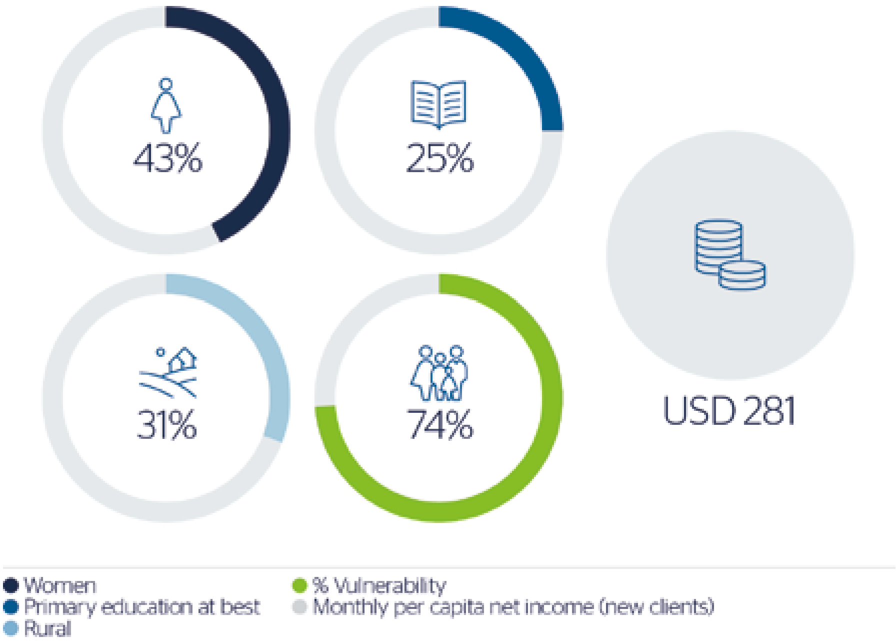
- In 2017, we served 5,037 clients, 16 % of these being *poor* and 7% of clients in *extreme poverty*, with their entrepreneurial activities not bringing in enough income to provide a basic food basket for every person in the household.

1. Client economic vulnerability



Source: Microserfin. BBVAMF calculations.

2. Women's profile



Source: Microserfin. BBVAMF calculations.

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1. According to the Economy and Finance Ministry's poverty line (distinguishing between rural and urban environments). Clients whose net income (i.e. profit obtained from their microenterprise) divided by the number of members in the family unit (*per capita*) is above the poverty line but no more than three times the poverty line of their corresponding country are classified as *vulnerable*. 'Total' shows the number of clients current at 12.31.2017. **2.** Proportion of clients current as of 12.31.2017. New clients (no previous loans) signed up over the year.

- In relative terms, women are the most *vulnerable* segment of new clients; of those in *extreme poverty* served, 47% were women, rising to 54% in the case of *poor* clients.

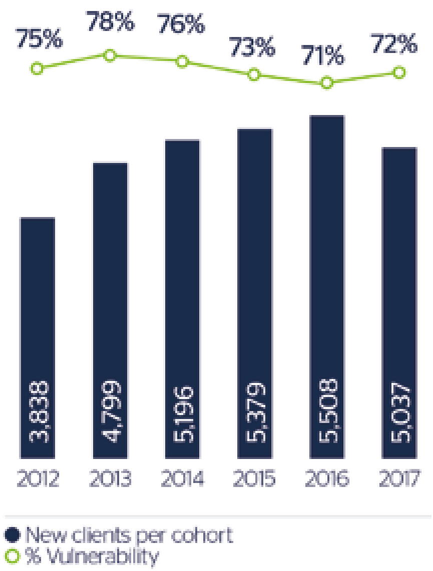
- Monthly *per capita* net income of the *extremely poor* is USD 46, which is 35% of the PL figure, and means that their incomes have to double if they are to overcome their initial situation. At the outset, women's net incomes are lower in all segments.

- The gap between men and women widens as incomes rise (5.29 multiples of the PL for men, compared to a multiple of 5.02 for women, in the case of clients in the *others* category).

- Over the course of 2017, 42% of new entrepreneurs were women, which represents the highest proportional intake of new women clients in the last three years. We have continued our efforts to serve clients in rural areas (39% in 2016 and 44% in 2017) and those with primary education at best (23% in 2017), since these are the most *vulnerable* segments (*see graph 6*).

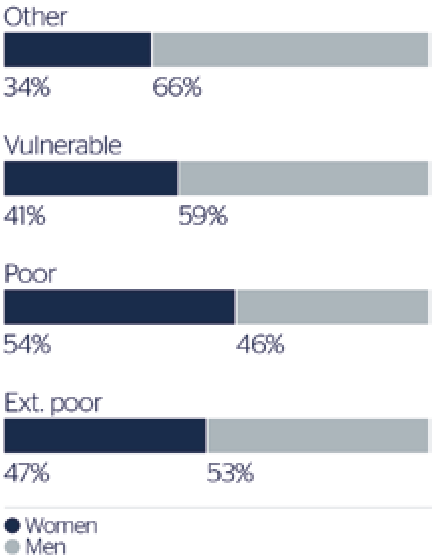
- The poorest clients seek out small-scale activities, with low technical requirements that enable them to generate liquidity fast, such as relatively easy businesses in the Agricultural sector (cereal crops), or Retail trade (selling food and beverages).

3. New credit clients



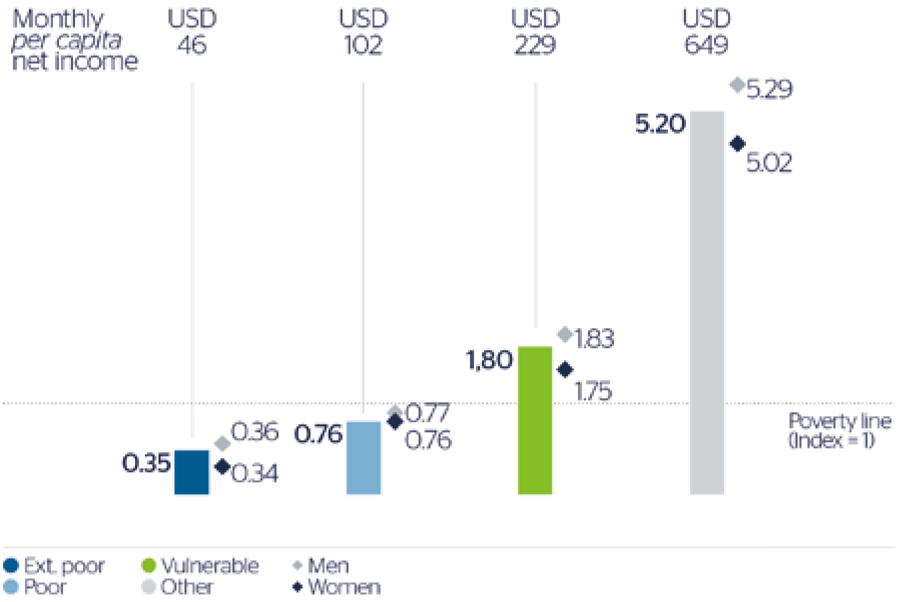
Source: Microserfin. BBVAMF calculations.

4. New credit clients' vulnerability, by gender



Source: Microserfin. BBVAMF calculations.

5. Relative net income of new clients



Source: Microserfin. BBVAMF calculations.

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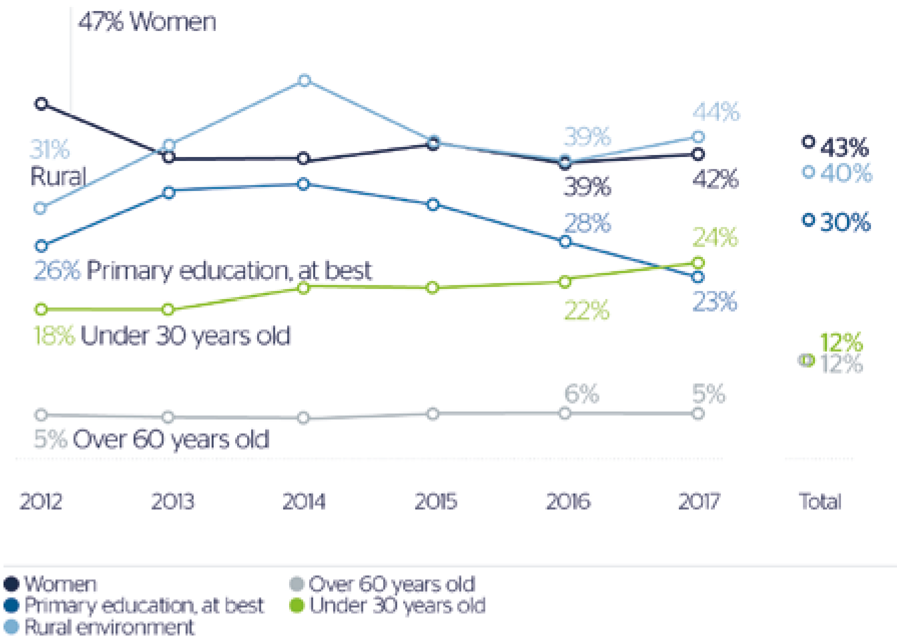
3 & 4. New clients (no previous loans) signed up over the year. **5.** According to Economy and Finance Ministry's poverty lines, differentiating between rural and urban environments. Considers clients signed up during the year (no previous loans).

1. Our clients

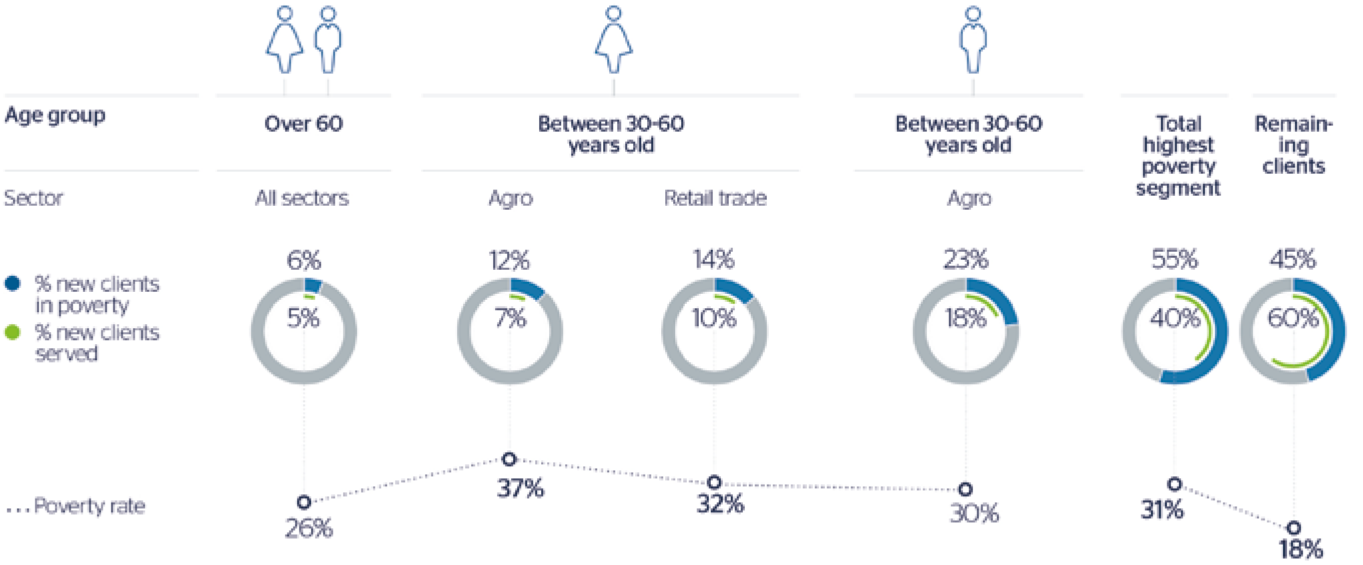
- The client profile we serve which suffers the deepest levels of poverty is that of women in agriculture, aged between 30 and 60. The poverty rate of men in this same profile is 7 p.p. lower. Other client segments with high poverty rates are women in Retail trade, aged between 30 and 60, as well as clients more than 60 years old.

6. **Profile of new credit clients**



Source: Microserfin. BBVAMF calculations.

7. **Clients with the highest poverty rates**



Source: Microserfin. BBVAMF calculations.

Profile of their businesses

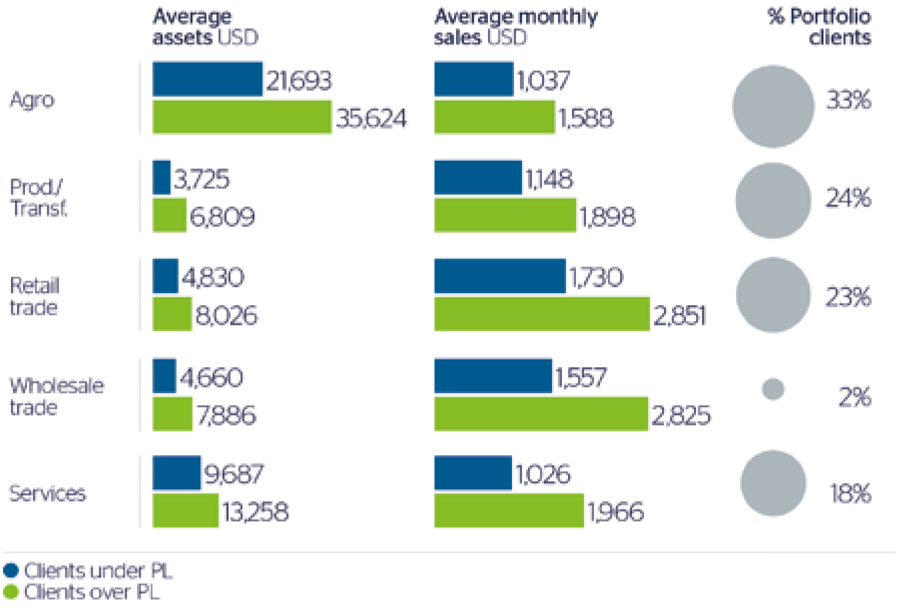
- Given the focus on serving clients in rural areas, Microserfin's client sectors, listed from more to less numerous, are as follows: Agriculture (33% of all clients), followed by entrepreneurs in Production and Transformation (24% of the total); and Retail trade (23% of the total).

- On average, the Agro sector has significantly higher asset levels than other sectors, reflecting greater dispersal of clients in terms of their poverty levels. This can be seen in clients' margins: average costs over sales show greater differences than in any other sector (67% for clients under the PL, and 54% for clients over the PL).

- In other sectors, the differences in margins are not so marked and remain within more narrow ranges.

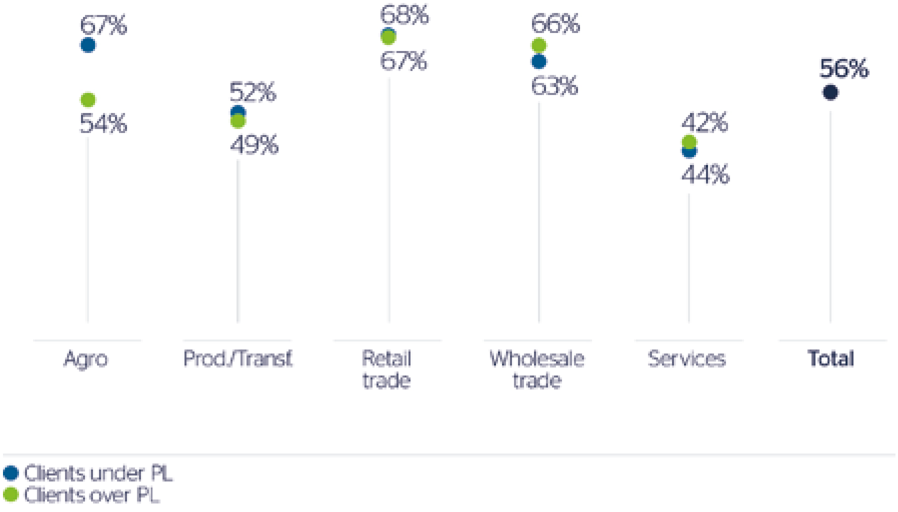
- On average, the value of *non-poor* clients' total assets is double the value of assets of those clients under the PL. There are high levels of assets in all sectors; Trade is the sector with the best sales over assets ratio (faster asset turnover).

8. Average monthly sales and assets - clients under and over the poverty line (PL)



Source: Microserfin. BBVAMF calculations.

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



Source: Microserfin. BBVAMF calculations.

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6. Covers new clients (no previous loans) signing up during the year. 'Total' shows the number of clients current at 12.31.2017. **7.** Covers new clients (no previous loans) signing up during the year. 'Total' shows the sum of the participation of the segments analyzed, calculated over total new clients served in 2017. 'Remaining' shows the participation of segments not included in the table, calculated over total new clients served during 2017. **8 & 9.** Average monthly sales and 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.

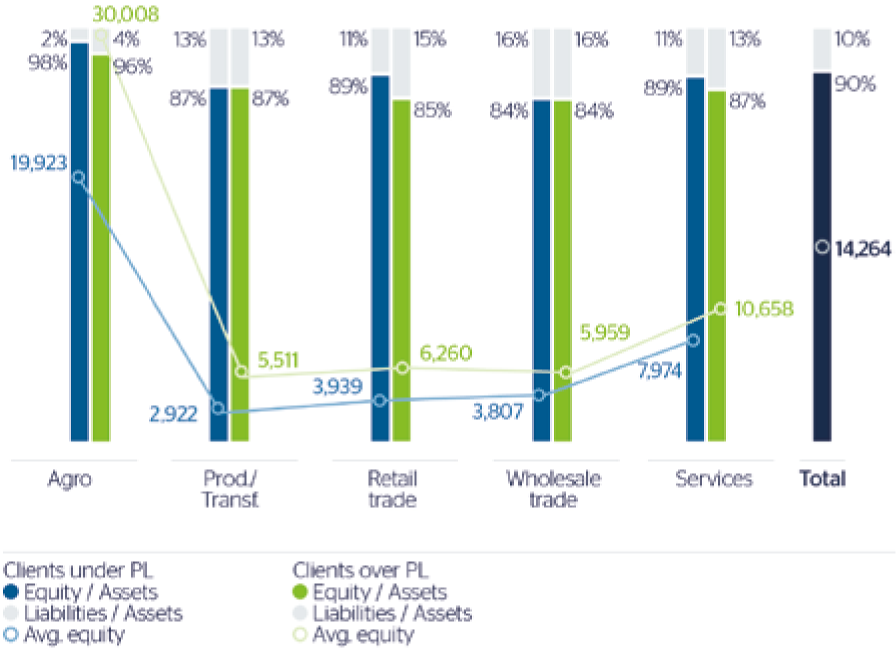
1. Our clients

- This flexibility and the relative ease of starting commercial businesses means women have a greater presence in Retail trade (33% of the total). Their main activities are the sale of food and beverages at 18 %, followed by sale of hardware, cosmetics, jewelry, toys and clothes (5% of the total).

- In the Agro sector, in particular, there is greater need for access to financing, because other sectors are more leveraged, reaching levels of 16% of assets, whereas in the Agro sector debt over assets comes in at 2%-4%.

- Agro-sector clients are, self-evidently, in rural areas where access to financial services is more limited and people are more risk-averse. For this reason, despite their relatively high asset levels, the sector is in need of microlending.

10. **Assets, liabilities and equity, by sector - clients under and over the poverty line (PL)**



Source: Microserfin. BBVAMF calculations.

10. Assets, liabilities and equity, together with their ratios, for each sector, segmented as under the PL (classified as *extremely poor* and *poor)* and over the PL (classified as *vulnerable* and *other*) clients. The loan granted by the institution is not included in liabilities. Covers clients current at 12.31.2017.

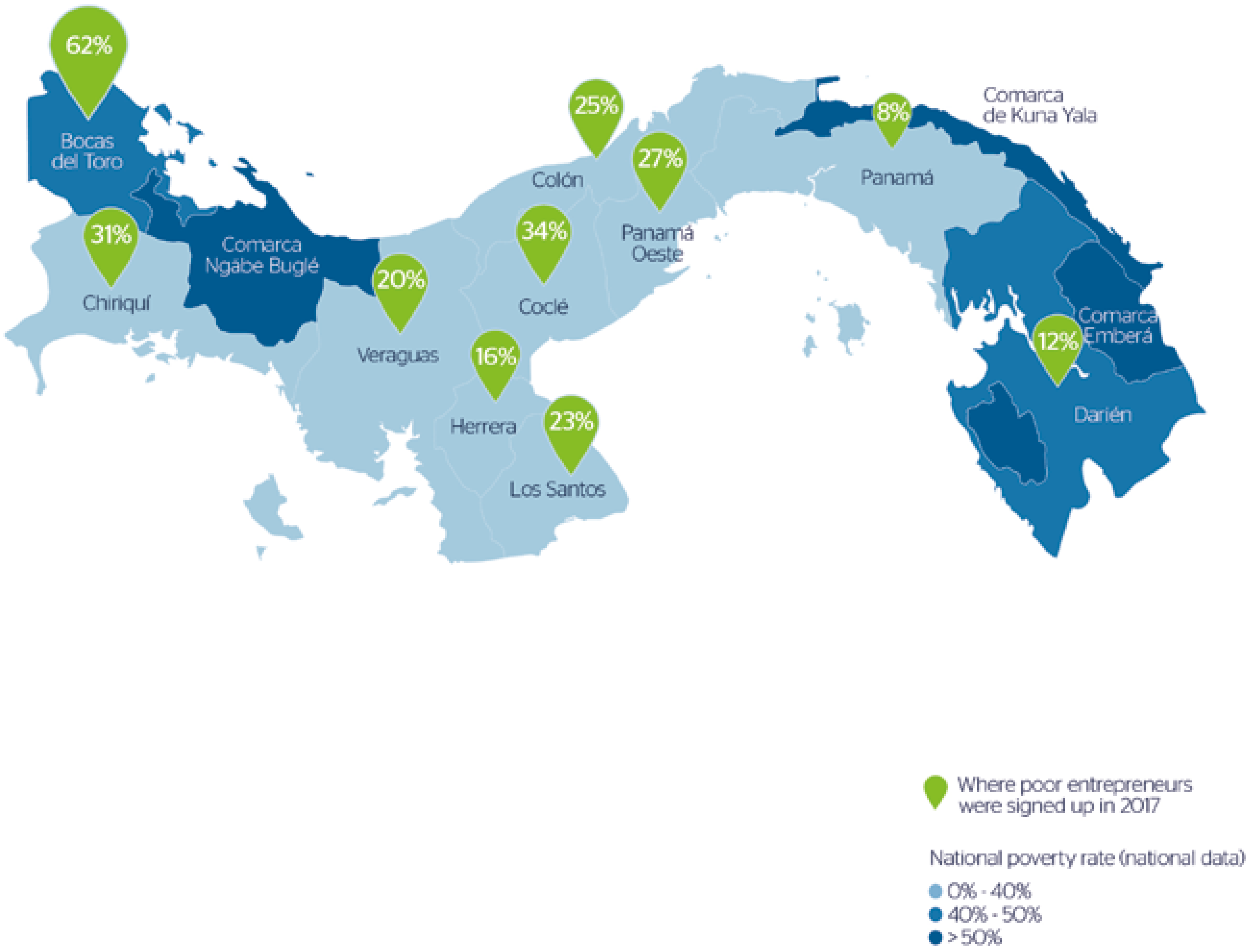
Where our clients are

- Thanks to its 13 branch offices, seven express offices and 10 client-service points (ODEC in the Spanish acronym), Microserfin has a footprint in most of the country's poorest districts, enabling it to serve new clients with net incomes below the PL (*poor* in this section) in the provinces of Bocas del Toro (where 62% of new clients are *poor*), Coclé (34%), and Chiriquí (31%). 30% of Microserfin's current client base is in these areas with high poverty rates according to national statistics (Buglé, Kuna Yala and Emberá are not served because their indigenous communities are nomadic).

- This emphasis demonstrates our commitment to serving clients in areas with greater inequalities, promoting sustainable development throughout the country.

> *Through its branch network, Microserfin works in many of the country's most vulnerable districts, showing its commitment to sustainable development*

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


62%
Bocas del Toro
31%
Chiriquí
Comarca Ngäbe Buglé
20%
Veraguas
25%
Colón
34%
Coclé
16%
Herrera
23%
Los Santos
27%
Panamá Oeste
8%
Panamá
Comarca de Kuna Yala
12%
Comarca Emberá
Darién
Where poor entrepreneurs were signed up in 2017
National poverty rate (national data)
● 0% - 40%
● 40% - 50%
● > 50%

Source: Microserfin. BBVAMF calculations.

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11. Proportion of poor households by districts in the region (2015). Ministry of Economy and Finance. The 10 regions with the highest percentage of *poor* new clients served in 2017 are shown.

2. Our clients' development

SDGs impacted

Growth of their businesses

- Panama's economic and financial stability enabled its GDP to grow in 2017 by 5.8%. This is a good backdrop against which entrepreneurs can make their businesses grow, although the segment served presents challenges of its own. Thus, clients' monthly sales are growing by an average of 7%, with an increase in average net incomes of 2.6% (men 2.3% and women 3.2%).

- Monthly expansion in sales and net incomes is higher in the Agro sector, posting growth rates of 3.8% in monthly net incomes, whereas, due to the high value of its assets, the latter only grow by an average of 7.6%, below other sectors.

- In absolute terms, women have half as many assets as men, but their businesses manage to generate the same level of sales and net incomes, demonstrating the accumulation of non-productive assets on their part.

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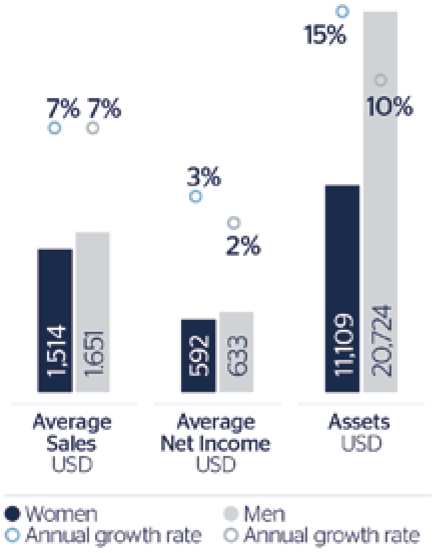
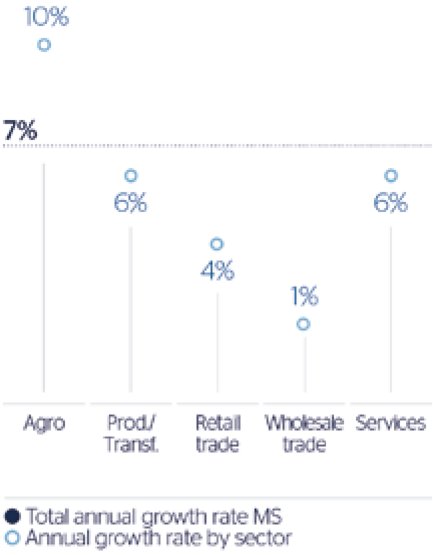
12. Current clients at some point in the year who have made a disbursement or update in the last 12 months of their relationship with the institution. The compound annual growth rate (CAGR) of the 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. **13, 14 & 15.** Current clients at some point in the year 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 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector.

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



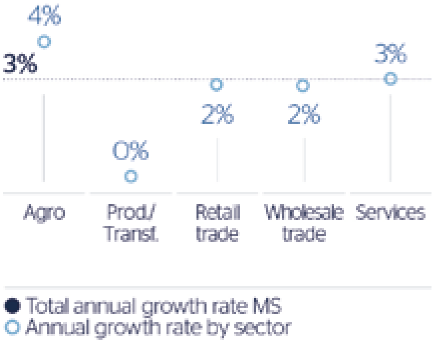
Source: Microserfin. BBVAMF calculations.

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



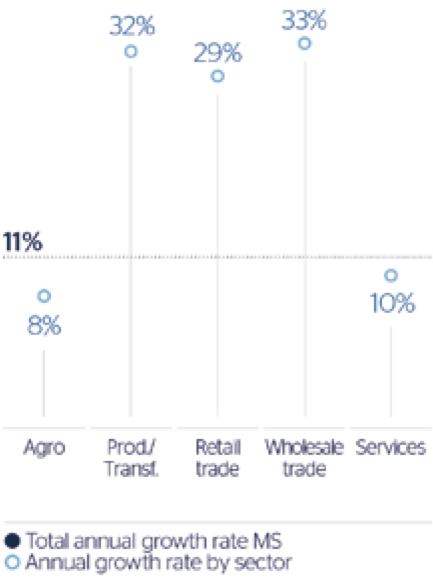
Source: Microserfin. BBVAMF calculations.

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



Source: Microserfin. BBVAMF calculations.

15. Avg. growth rates of assets, by sector



Source: Microserfin. BBVAMF calculations.

Escaping poverty

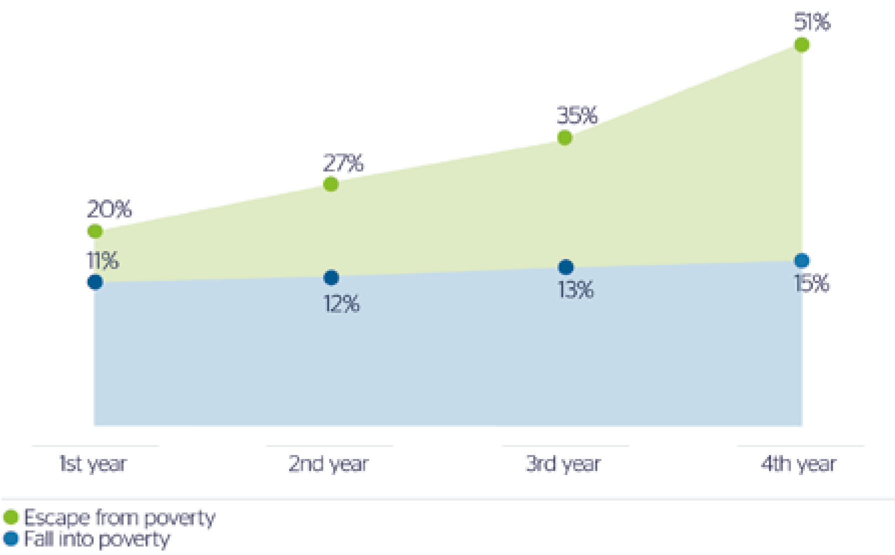
- Because of its focus on serving vulnerable clients in rural areas, Microserfin concentrates on Agro and Production/transformation sectors. The incomes of these entrepreneurs are more unstable over time; thus, generating incomes over the poverty line in a sustained manner is a challenge.

- As is the case in other microfinance institutions, around 12% of *non-poor* clients fall into *poverty*, and this performance is stable over time.

- As the time they have been banking with Microserfin increases, clients' net business incomes show sustained growth. Thus, their contribution to the household (in terms of monthly *p.c.* net income) shows a stable trend over time, relative to the PL.

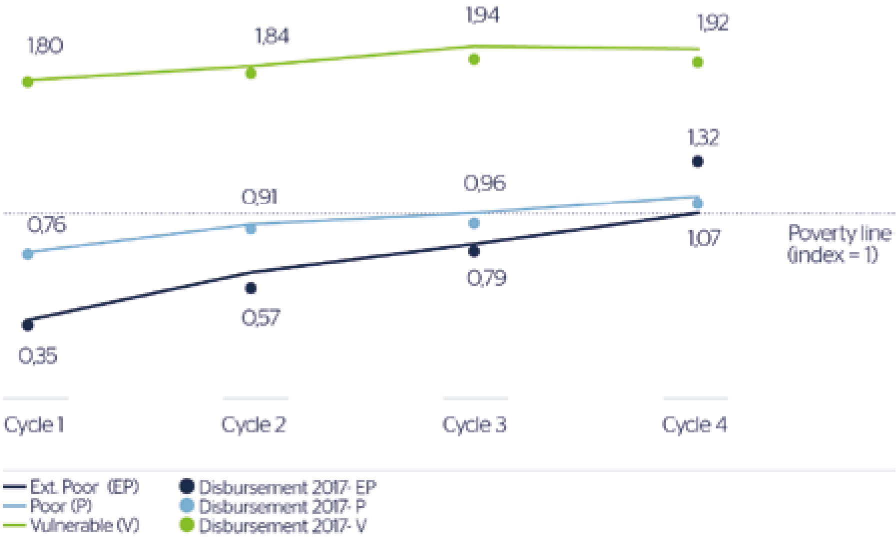
- *Poor* clients and those in *extreme poverty* need the same number of credits and renewals (four in all) to get over the PL threshold. The lower their income at the outset, the greater the growth (angle on the curve) that clients achieve. Disbursements in 2017 are in line with historic performance.

16. Clients falling into and escaping poverty



Source: Microserfin. BBVAMF calculations.

17. Net income relative to the PL



Source: Microserfin. BBVAMF calculations.

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16. Clients current at some point in 2017 were recorded and their data updated in the final 12 months of their relationship with the institution. 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 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. **17.** 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) showing the progress of monthly *p.c.* net income in each credit cycle, relative to each country's official poverty line. Relative monthly *per capita* net income takes the value of one when it is equal to the poverty line.

2. Our clients' development

- *Poor* and *vulnerable* clients maintain stable growth levels over time; clients in *extreme poverty,* however, suffer cyclical effects, reporting higher growth levels in their *p.c.* net incomes, but with greater instability, too.

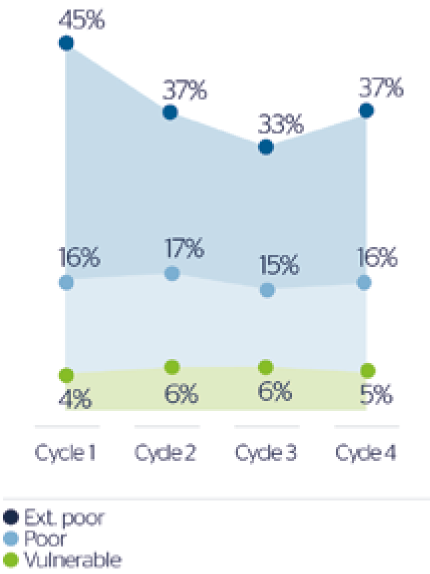
- In the case of the client group that has had at least five loans with the institution, 16% of clients under the PL experience volatility (i.e. a client who crosses the PL at least twice), while among 10% of the *non-poor*, instability impacts on our clients' progress.

- Of clients under the PL, 54% overcome poverty, 38% do so permanently during the period monitored, while 16% suffer setbacks.

- Of *non-poor* clients, around 80% maintain their initial condition while 22% slip into poverty, of whom 10% do so temporarily.

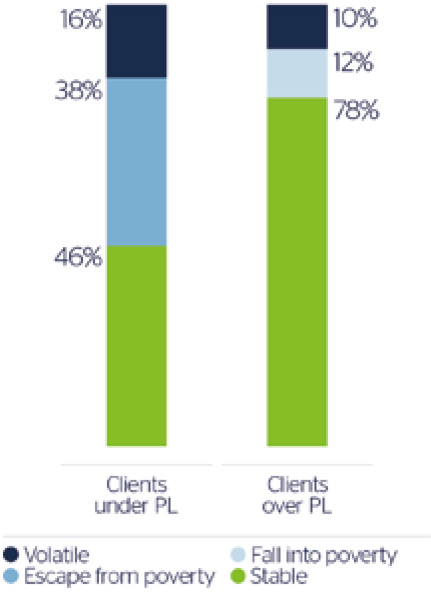
- Income instability is one of the primary factors determining a drop into *poverty*: 48% of clients who enter *poverty* do so as a result of a reduction in their incomes –(mainly clients in the Agro sector)- whereas for 34% it is a result of an increase in their costs, with indirect costs being the main culprit. The remaining 18% enter *poverty* as a result of an increase in the number of household members.

18. Average net income growth relative to the PL



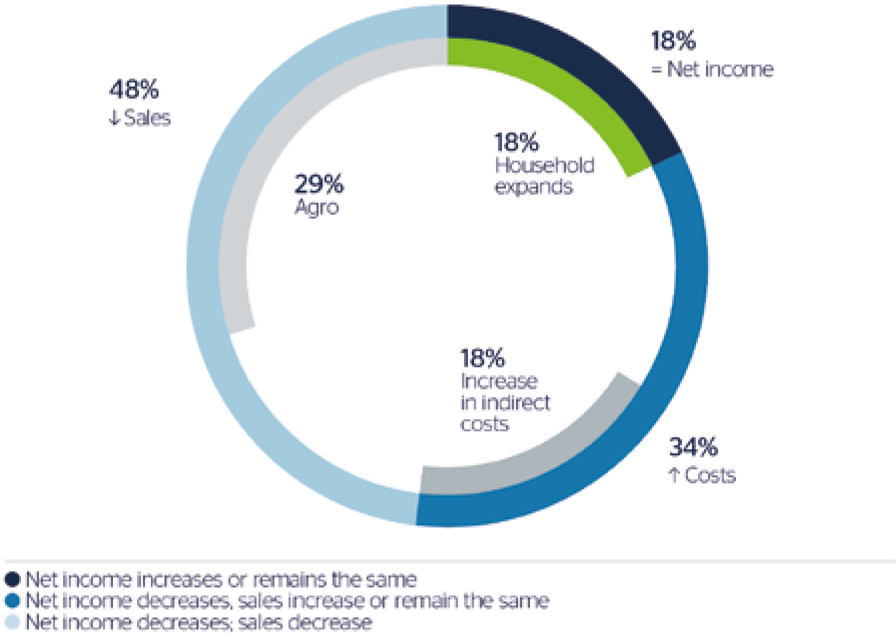
Source: Microserfin. BBVAMF calculations.

19. Net income volatility relative to the poverty line



Source: Microserfin. BBVAMF calculations.

20. Clients falling into poverty



Source: Microserfin. BBVAMF calculations.

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18. For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at each credit cycle. **19.** Clients served between 2011 and 12.31.2017 who have had at least five disbursements. The classification by *vulnerability* considers their situation at the outset (first loan) and is segmented by under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*). • Volatile: client who crosses the poverty line at least twice. • Escape from poverty: client who escapes poverty and doesn't fall back in. • Fall into poverty: client enters poverty in one cycle and does not escape it again. • Stable: client who remains *poor* or *non-poor* throughout the five disbursements

- We see how a large proportion of clients perform well and succeed in overcoming poverty or improving their situation. A large part of their efforts is spent on stabilizing their revenue stream.

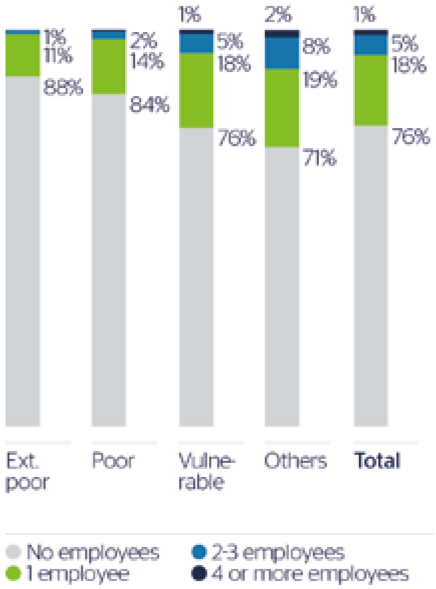
Indirect impact

- After two years of banking with Microserfin, 5% of entrepreneurs manage to provide employment for at least one person, and after five with the institution, 11% are employed, impacting on the economic environment in which Microserfin clients work.

- Panama has a very dynamic labor market, which makes it easy for entrepreneurs to hire employees. 24% of all clients have at least one employee.

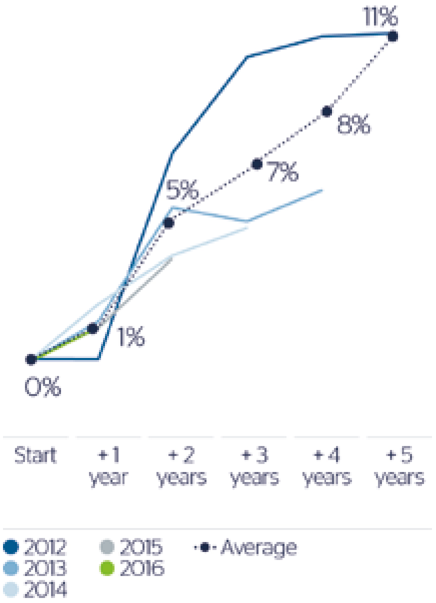
- After three years with the institution, 12% of clients succeed in improving their housing, which suggests that they are in a more favorable situation to achieve their goals.

21. **Micro-enterprise employee breakdown**



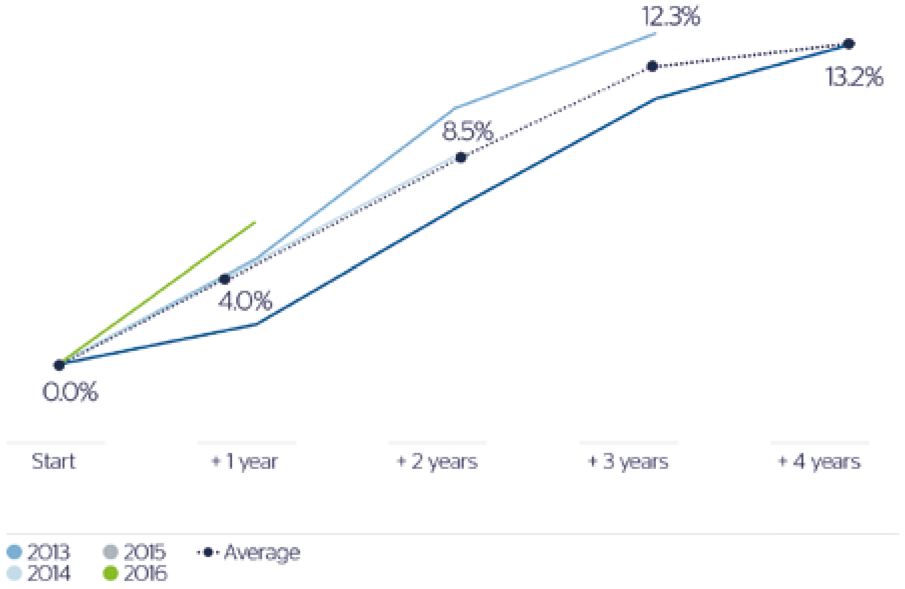
Source: Microserfin. BBVAMF calculations.

22. **Job creation (by cohort)**



Source: Microserfin. BBVAMF calculations.

23. **Client improvement in housing (by cohort)**



Source: Microserfin. BBVAMF calculations.

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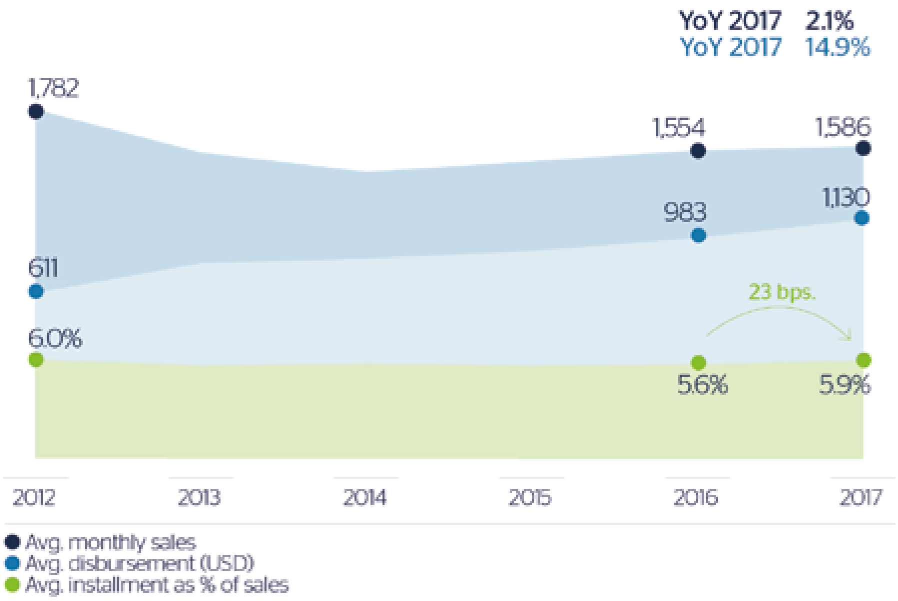
20. Clients who have been current at some point in 2017 and have updated their data in their last 12 months with the institution. Shows those clients who at the outset were classified as *non-poor* and who are currently under the PL. **21.** Covers the number of employees working for clients current at 12.31.2017. **22.** 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 2012-2017 are shown. **23.** Proportion of clients current as of 12.31.2017 of each cohort that has moved from a rented to their own home or moved to a newer home.

3. Relationships with clients

SDGs impacted

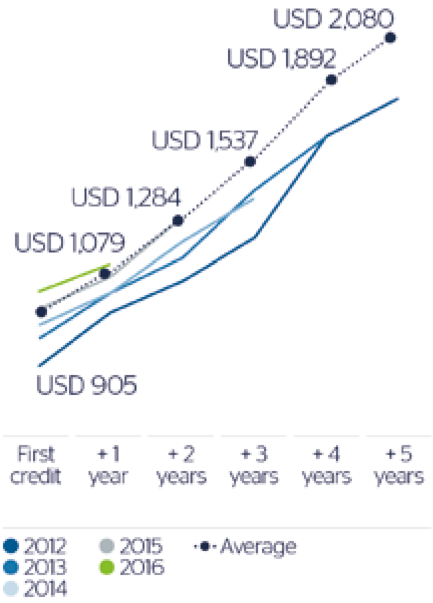
- New clients served have similar monthly sales over time, showing a correlation with the fact that the institution is serving "target clients" (in economic *vulnerability*).
- The average ratio of the installment over sales has also remained stable, around 6% of average monthly sales in 2017.
- In addition, as clients grow with the institution, we see that average disbursements match that growth, reaching USD 2,080 for clients who have been with the institution for five years or more.
- Microserfin's client retention rate after a year is 72%.
- After the first loan over half (51%) of clients decide to sign up for a second one.

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



Source: Microserfin. BBVAMF calculations.

25. **Average disbursement per transaction (by cohort)**



Source: Microserfin. BBVAMF calculations.

26. **Credit client retention and recurrence**

Retention	
Start	100%
+1 year	72%
+2 years	43%
+3 years	33%
+4 years	26%
+5 years	21%

Recurrence		**Distance (days)**
Cycle 1	100%	0
Cycle 2	51%	391
Cycle 3	32%	403
Cycle 4	21%	394
Cycle 5	13%	364
Cycle 6 or +	7%	313

Source: Microserfin. BBVAMF calculations.

24. 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. **25.** Variation 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. **26.**'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.

Macroeconomic analysis

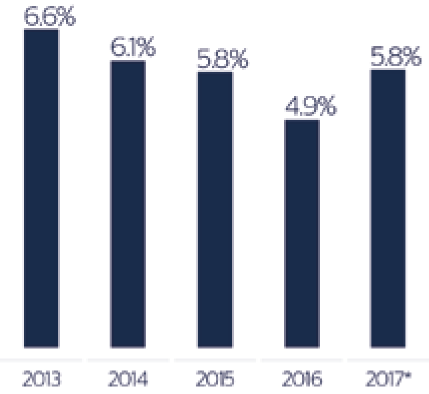
Panama

With one of the highest *per capita* incomes and the lowest inflation rates, Panama's economy is one of the most dynamic in the region. However, the reduction in poverty and inequality flowing from this growth has been less pronounced than the average for Latin America.

Economic context

Economic growth: the most dynamic in the region

GDP Growth (var)



Source: MEF (Ministry of Economy & Finance).
* BBVAMF Research estimates.

In 2017, the Panamanian economy grew by 5.8%, thanks to the greater momentum in the Transport, storage and communications, Construction, Mining & quarrying and Education services sectors[1]. The Transport, storage and communications sector grew by over 12%, as a result of the extraordinary jump in Panama Canal operations, linked to the increased infrastructure resulting from the expansion, now complete, and to the better performance of the port system and air transport. The expansion of the third set of locks and higher growth in worldwide trade accounted for the 19% rise in toll incomes from the previous year, as well as a 25% increase in cargo volumes.

Construction grew by 9% as a result of the increase in the building of homes and public and private infrastructure projects. The volume of building projects grew by 23%, with public sector housing construction being boosted by programs such as the *Urban Renewal of Colón*, the *Techos de Esperanza* program, project housing and the Solidarity Housing Fund *[Fondo Solidario de Vivienda]*.

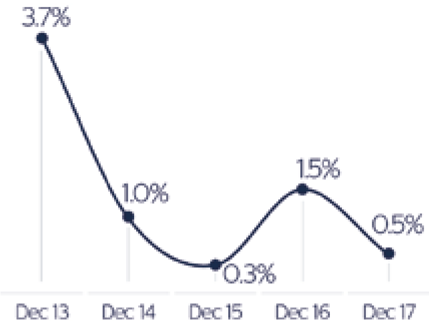
Linked to the upturn in Construction, the Mining and quarrying sector posted growth of 8.7%, because of greater use of raw materials, particularly stone and sand, produced by this sector.

Trade expanded by 3%, as a result of better performance in the local wholesale segment and retail, while sales in the Colón Free Trade Area fell, mainly because of the difficulties of their main trading partners: Venezuela, Colombia and Puerto Rico.

Turning to demand, consumption expanded by 5.4%, an improvement on 2016, while investment grew by 9.2%, the key factor accounting for the momentum in the Panamanian economy in recent years.

Inflation: the lowest in the region

Inflation (CPI var)



Source: MEF.

Panama's inflation rate ended the year at 0.5%, bringing the previous ten-year average down, for the fourth year in a row. The activity group with the greatest impact on this low inflation level was Food and non-alcoholic beverages, which has the highest weighting, which posted a negative variation of -1.3%, while the groups contributing most to inflation were Education, at 3.5%, and Healthcare, at 2.3%.

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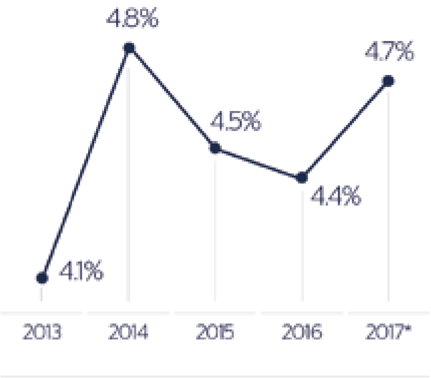
1. Conducted to the end of November 2017. All estimates for 2017 are by BBVAMF Research, based on MEF data.

Inflation remains under control, due to low fuel prices and the strength of the dollar. It is forecast to rise slightly, as fuel prices continue to normalize, reflected in movements in transport prices at the close of December, which rose by 0.6% from the previous month, and the weaker dollar. Lower oil prices have made it possible to reduce energy subsidies.

Even though the minimum wage went up by 8.5% in 2017, average unit labor costs fell, following the trend over the last few years, a factor which has had an impact on the performance of inflation.

Labor market: one of the countries with the lowest unemployment rates

Open unemployment rates (% of the workforce)



Source: MEF. * Estimate: BBVAMF Research.

The Panamanian economy still has one of the lowest unemployment rates in the region, with total unemployment (open and hidden) recorded at 6%; open unemployment stands at 4.7%[2]. The unemployment rate edged up slightly from 2016, in spite of the higher economic growth over the year, due to sectors which, on average, need less manpower compared to the year before.

When unemployment is broken down by gender, we see that whereas men's unemployment is 4.9%, in the case of women it was 7.6%, even though men's rate of participation (77.3%) was 26.6 percentage points higher than that of women. Less momentum in Trade and Other services accounts for the fact that, in relative terms, women's participation rates in recent years has improved, but not much; the structural gender gap in participation rates has not been closed.

According to official figures, employment in the informal economy rose by more than three percentage points over five years, from 36.9% in 2011 to 40.2% (although unofficial figures put this at 53%) in 2016, in an environment where there are more self-employed and fewer waged workers. The occupation rate in the informal sector has expanded by around 8% in recent years, accounted for by the increase in self-employed work.

50.2% of all people in the informal economy work for themselves, 32.5% have a waged job, 11.1% are domestic employees, 3.9% are businessowners and 2.4% work in the family business.

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[2] All estimates for 2017 are by BBVAMF Research, based on Global Findex figures from the World Bank.

Social environment

Financial inclusion: access to the financial system is improving

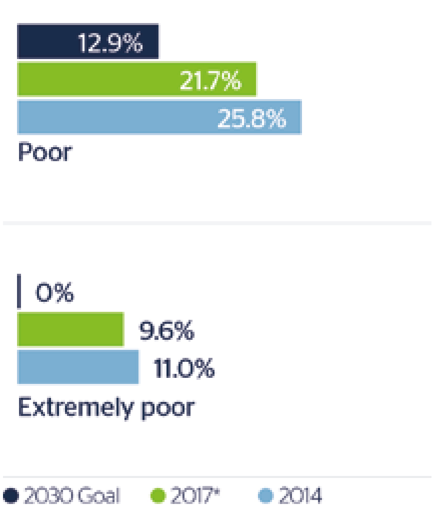
Financial inclusion, measured as the proportion of adults who have a financial product, was recorded at 52%, an improvement of 9 percentage points (p.p.) from the last time it was measured, in 2014. This means that, during this period, around 336,377 adults have joined the financial system; in 2017 around 1.4 million adults still do not have access[2].

Schooling levels still explain most of this financial inclusion gap. 60% of adults with higher levels of education are included in the financial system, whereas only 29% of those with primary education at best are included, a gap of 31 p.p. When inclusion is analyzed by gender, there is gap of 8 p.p.; only 48% of adult women have any financial products, compared to 56% of men.

In rural zones, 40% of adults are financially included, leaving around 495,000 inhabitants of these areas outside the system.

Poverty: less trickle-down of growth on poverty reduction

Poverty (% of the population)



Source: MEF. * Estimate: BBVAMF research, UN.

Monetary poverty[3] in Panama in 2017 is suffered by 21.7% of the population, a drop of 4.1 p.p. from 2014, when the poverty rate was 25.8%. Panama is one of the world's fastest growing economies; it has more than doubled its *per capita* income between 2004 and 2017, which has enabled the number of non-poor to rise by 1.13 million over this period, equivalent to 28% of the current population[4]. However, the effect of this growth on poverty reduction is lower than the average for Latin America as a whole.

The poverty rate differs greatly across the country. In the districts of Ngäbe Buglé, Guna Yala and Emberá, poverty levels stand at 84%, 76% and 67%, respectively, whereas in Panama, Los Santos and Colón they are 12.3%, 13.2% and 14.5%, respectively. These regional variations are even more marked when we assess extreme poverty: in the areas suffering the greatest poverty 65%, 56% and 37% of the population are affected. In areas of less poverty, 3%, 2% and 4% respectively, are in a situation of extreme poverty, thus widening the gap between areas. These areas are mainly indigenous communities with the largest proportion of poor people.

These divergences extend to other areas that reveal yawning social and institutional gaps: some sectors are highly dynamic, in locations around the Canal and the Colón Free Trade Agreement, for example, but in others that employ more people there is low investment and productivity.

The poorest parts of the country are characterized by significant gaps in education, healthcare and other essential services, creating barriers to the lower-income population joining the productive areas that are expanding. Migration processes also foster the informal economy and pockets of poverty in some city neighborhoods.

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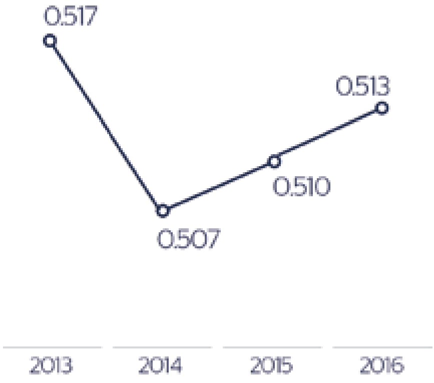
2. All estimates for 2017 are by BBVAMF Research, based on Global Findex figures from the World Bank. **3.** Someone is considered monetarily poor if his/her *per capita* monthly income is below the monetary value of a basket of goods and services that meet the basic needs of one person (poverty line). **4.** All estimates in this section are by BBVAMF Research.

Inequality: slow improvements

Inequality (Gini index)



Source: MEF.

In 2016, income inequality as measured on the Gini index, which takes values between 0 (representing perfect equality) and 1 (representing maximum inequality), was recorded in Panama at 0.513, a worse rate of inequality than 2014, when it was 0.507. Thus, even though Panama has shown average annual growth of 7.3% between 2004 and 2017, landing the country the highest *p.c.* GDP of the region, inequality reduction has grown at a slower rate than the average for Latin America, making it still one of the most unequal societies.

In 2003, the Gini income inequality index stood at 0.559, showing an average year-on-year reduction of 0.7%, whereas in Latin America, on average, the reduction was 1.1%. In Panama, the fifth quintile, with the richest 20% of the population, concentrated 47% of all incomes, whereas the first quintile, the poorest 20%, accounted for a mere 4.7% of income, a ratio that is 10 times higher than the average for the region. This is partly explained by the reduction of the participation of the total payroll in GDP, which fell from 38% in 2004 to 28% now.

Other dimensions

Extending the examination to other dimensions, 34% of the rural population live in homes where at least one member has insufficient education; 34% have inadequate drainage; 31% suffer from job insecurity, 22% of households are built with poor materials, 19% of the population live in overcrowded conditions and 18% have insufficient or no electricity, among other dimensions.

In urban households, the greatest failing is job precarity, affecting 7% of urban populations; 6% have insufficient schooling, 5% have poor sanitation and around 5% live in households where one or more members are unemployed or works in the family business.

Measuring what really matters

2017 Social Performance Report

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