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
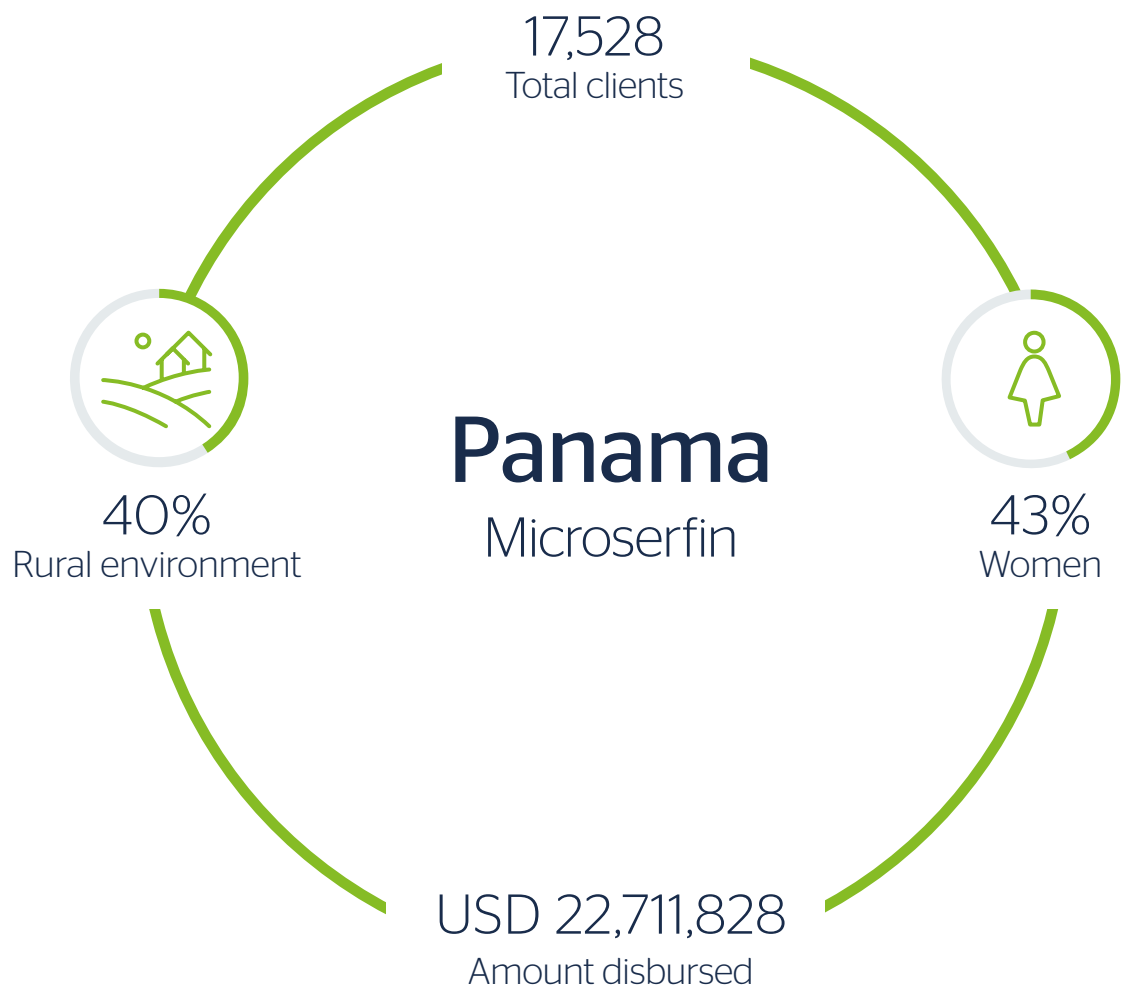
A committed team of 265 professionals works continually in Microserfin to reduce the poverty and vulnerability of Panamanians, especially those in rural areas.

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	**Nº of disbursements in 2017**	**Nº of branch offices**
17,528	14,464	13
Gross loan portfolio (USD)	**Average disbursement in 2017**	**Nº of employees**
28,735,626	1,570	265
Amount disbursed in 2017 (USD)	**People receiving financial education**	
22,711,828	5,876	

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.

Microserfin Panama
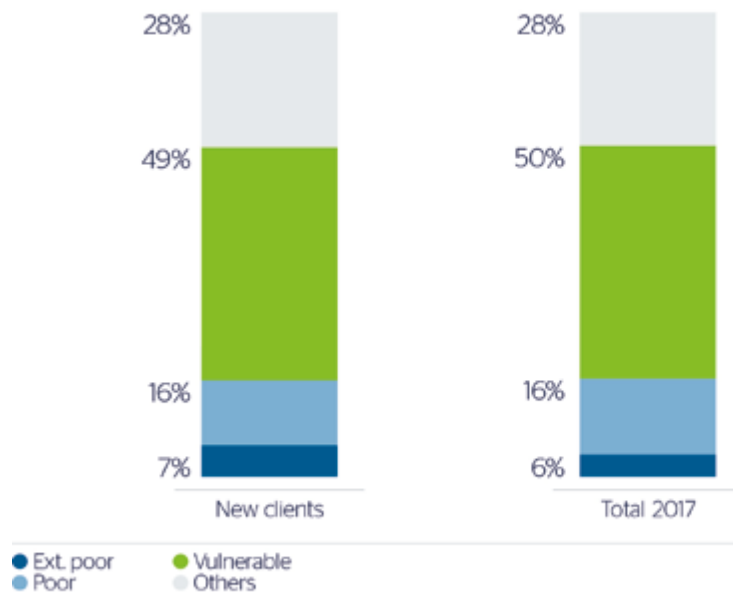
1. Our clients

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

	New clients	Total 2017
Others	28%	28%
Vulnerable	49%	50%
Poor	16%	16%
Ext. poor	7%	6%

● Ext. poor ● Vulnerable
● Poor ● Others

Source: Microserfin. BBVAMF calculations.

2. Women's profile

43%   25%

31%   74%   USD 281

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

Source: Microserfin. BBVAMF calculations.

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 micro-enterprise) 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*).
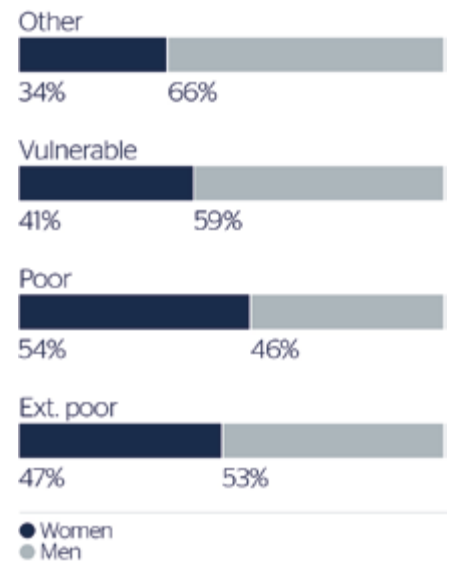
- The poorest clients seek out small-scale activities, with low technical requirements that enable them to generate liquidity fast, such as relatively easy businesses in the Agricultural sector (cereal crops), or Retail trade (selling food and beverages).
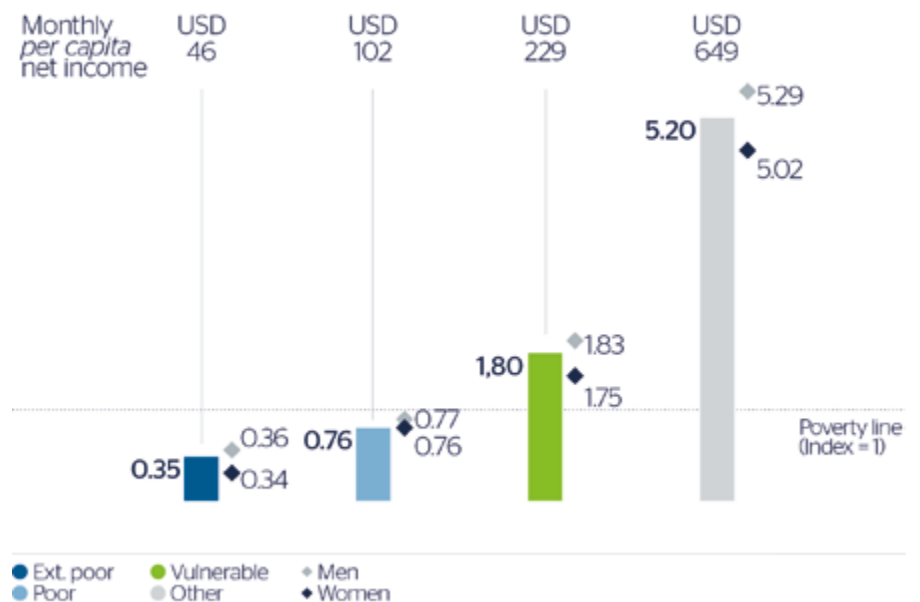
3 & 4. New clients (no previous loans) signed up over the year. **5.** According to Economy and Finance Ministry's poverty lines, differentiating between rural and urban environments. Considers clients signed up during the year (no previous loans).

3. New credit clients

75% 78% 76% 73% 71% 72%

3,838 | 4,799 | 5,196 | 5,379 | 5,508 | 5,037
2012 | 2013 | 2014 | 2015 | 2016 | 2017

● New clients per cohort
○ % Vulnerability

Source: Microserfin. BBVAMF calculations.

4. New credit clients' vulnerability, by gender

Other
34% 66%

Vulnerable
41% 59%

Poor
54% 46%

Ext. poor
47% 53%

● Women
● Men

Source: Microserfin. BBVAMF calculations.

5. Relative net income of new clients

Monthly *per capita* net income	USD 46	USD 102	USD 229	USD 649

5.20
♦5.29
5.02

1.80
♦1.83
1.75

0.76
♦0.77
0.76

0.35
0.36
♦0.34

Poverty line (Index = 1)

● Ext. poor   ● Vulnerable   ♦ Men
● Poor   ● Other   ♦ Women

Source: Microserfin. BBVAMF calculations.

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
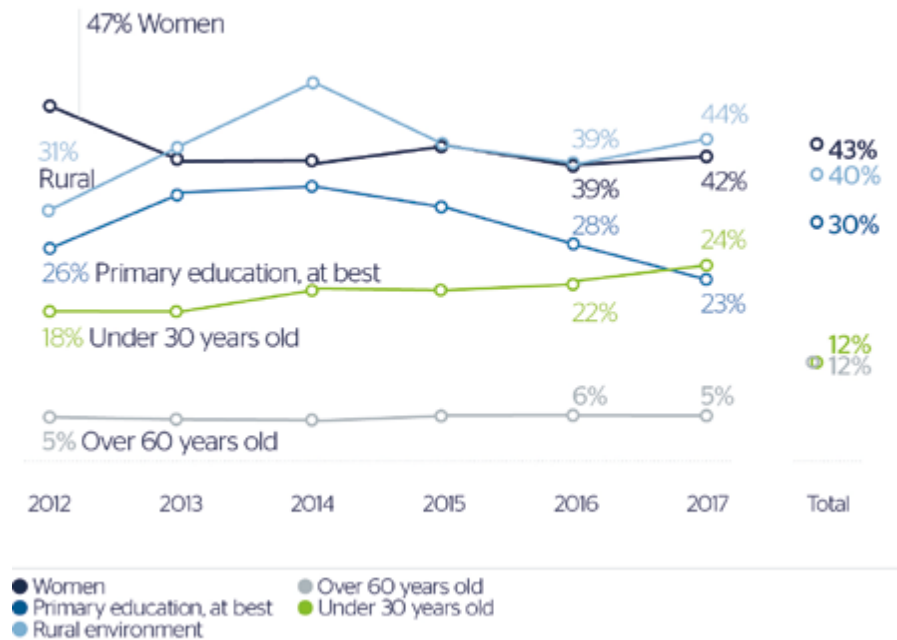
Source: Microserfin. BBVAMF calculations.

## 7. Clients with the highest poverty rates

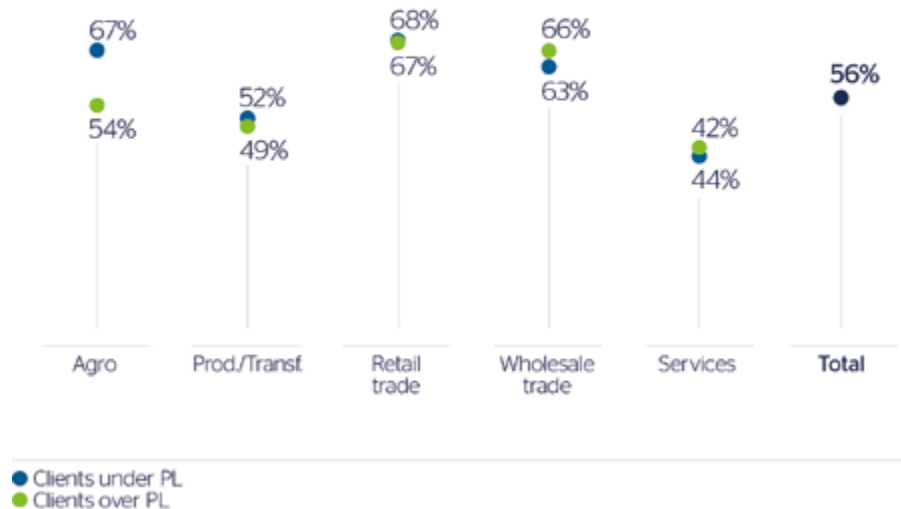Source: Microserfin. BBVAMF calculations.

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)

● Clients under PL.
● Clients over PL.
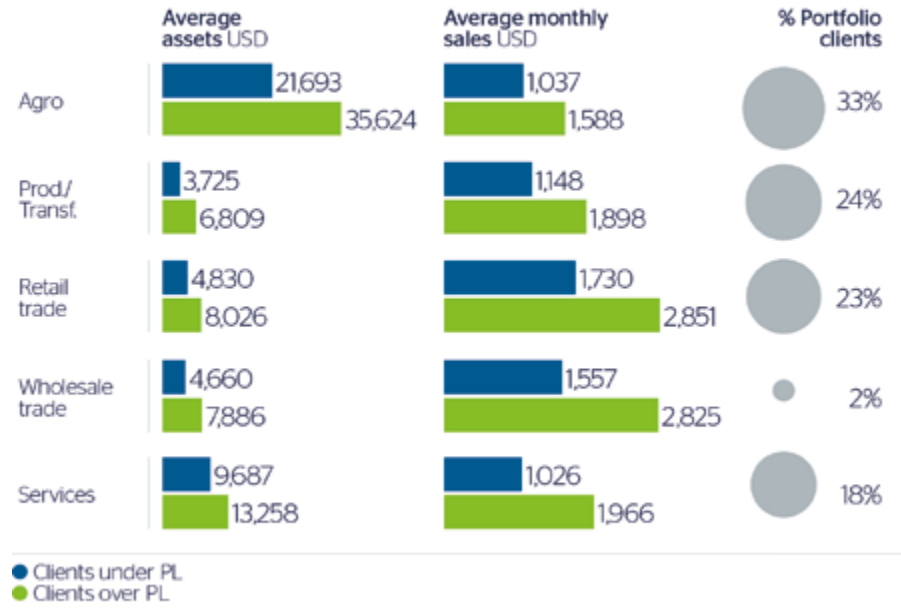
Source: Microserfin. BBVAMF calculations.

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

● Clients under PL.
● Clients over PL.

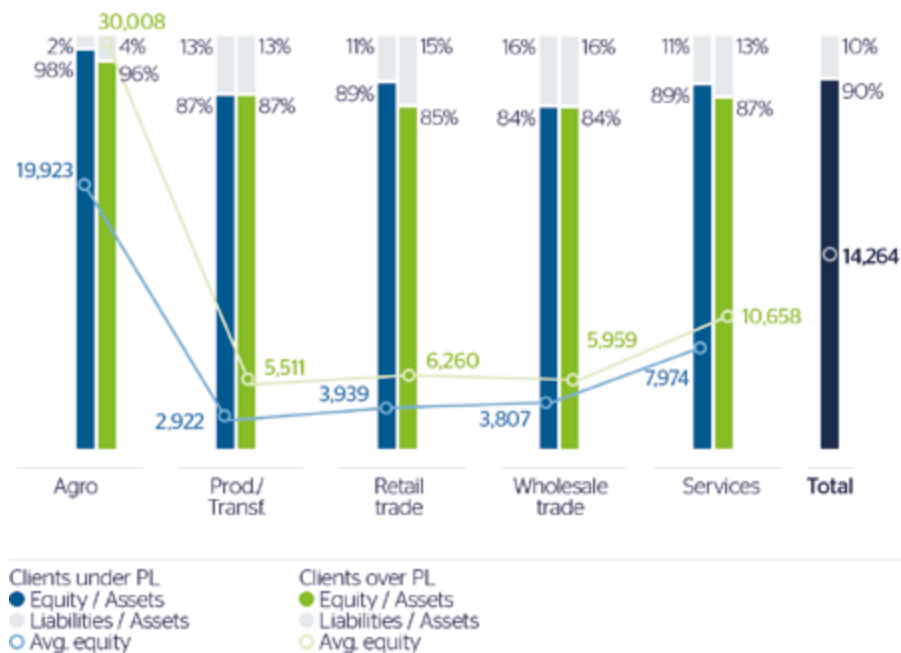Source: Microserfin. BBVAMF calculations.

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)**

Clients under PL.
● Equity / Assets
○ Liabilities / Assets
○ Avg. equity

Clients over PL.
● Equity / Assets
○ Liabilities / Assets
○ Avg. equity

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.
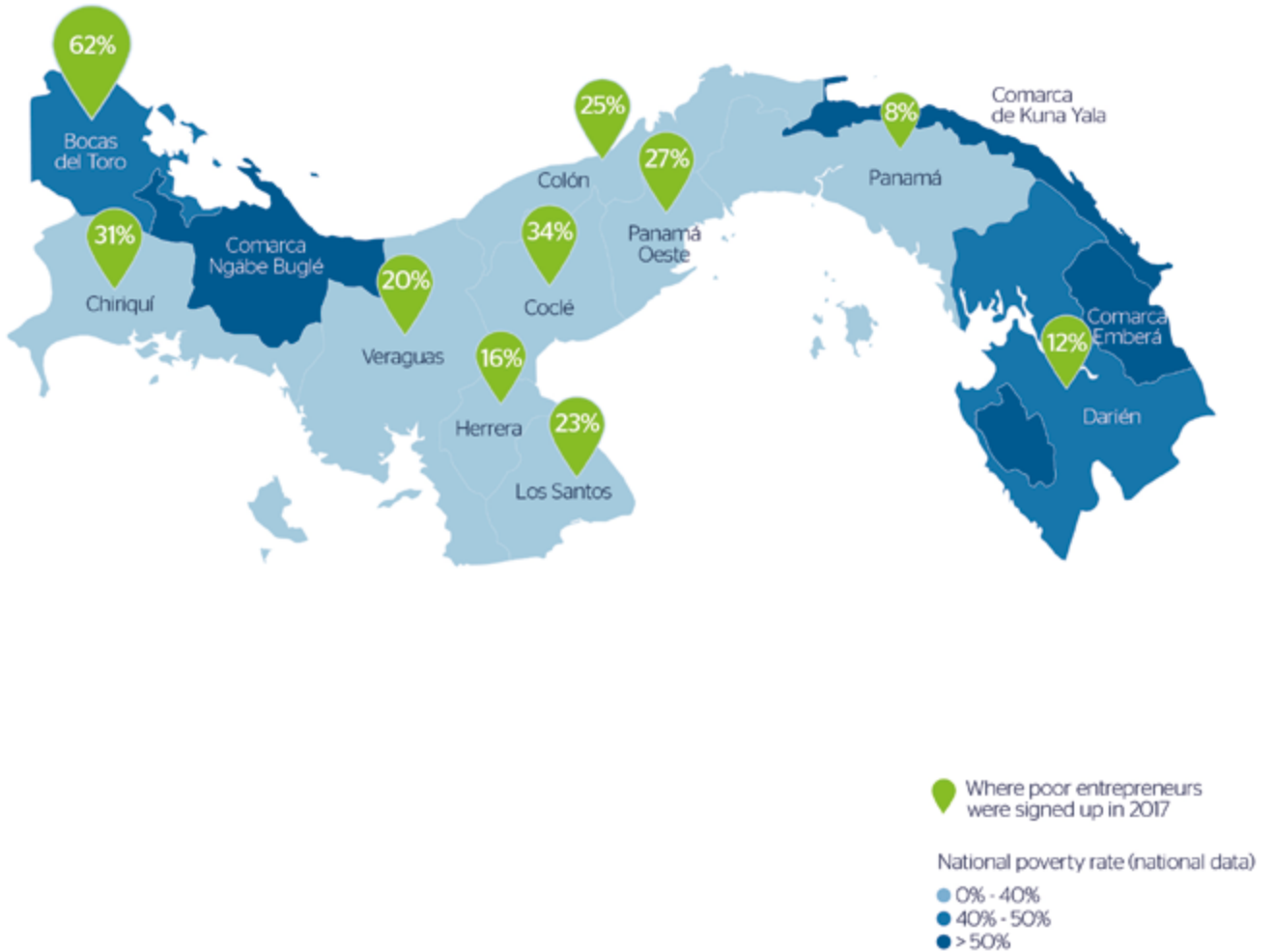
Where our clients are

• 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%

27%

Colón

34% Coclé

Panamá Oeste

8%

Comarca de Kuna Yala

Panamá

16% Herrera

23% Los Santos

12% Comarca Emberá

Darién

Where poor entrepreneurs were signed up in 2017

National poverty rate (national data)
- 0% - 40%
- 40% - 50%
- > 50%

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.
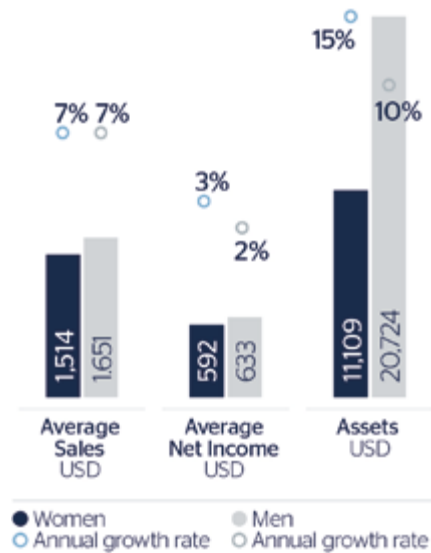
2. Our clients' development

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.

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

	Women	Men
Average Sales USD	1,514	1,651
Average Net Income USD	592	633
Assets USD	11,109	20,724

Annual growth rates: Average Sales 7% / 7%; Average Net Income 3% / 2%; Assets 15% / 10%

● Women ● Men
○ Annual growth rate ○ Annual growth rate

Source: Microserfin. BBVAMF calculations.

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

Total annual growth rate MS: 7%
By sector: Agro 10%, Prod./Transf. 6%, Retail trade 4%, Wholesale trade 1%, Services 6%

● Total annual growth rate MS
○ Annual growth rate by sector

Source: Microserfin. BBVAMF calculations.

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

Total annual growth rate MS: 3%
By sector: Agro 4%, Prod./Transf. 0%, Retail trade 2%, Wholesale trade 2%, Services 3%

● Total annual growth rate MS
○ Annual growth rate by sector
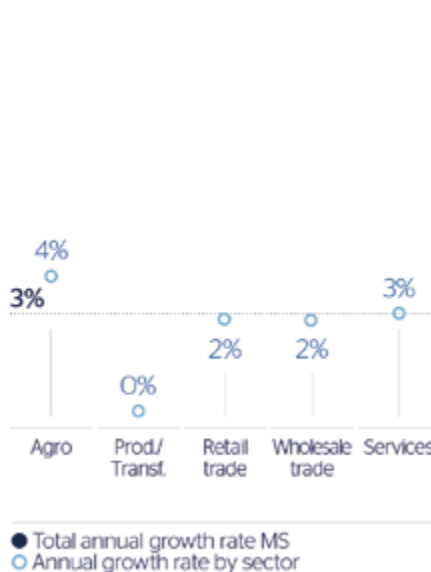
Source: Microserfin. BBVAMF calculations.

15. Avg. growth rates of assets, by sector

Total annual growth rate MS: 11%
By sector: Agro 8%, Prod./Transf. 32%, Retail trade 29%, Wholesale trade 33%, Services 10%

● Total annual growth rate MS
○ Annual growth rate 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.
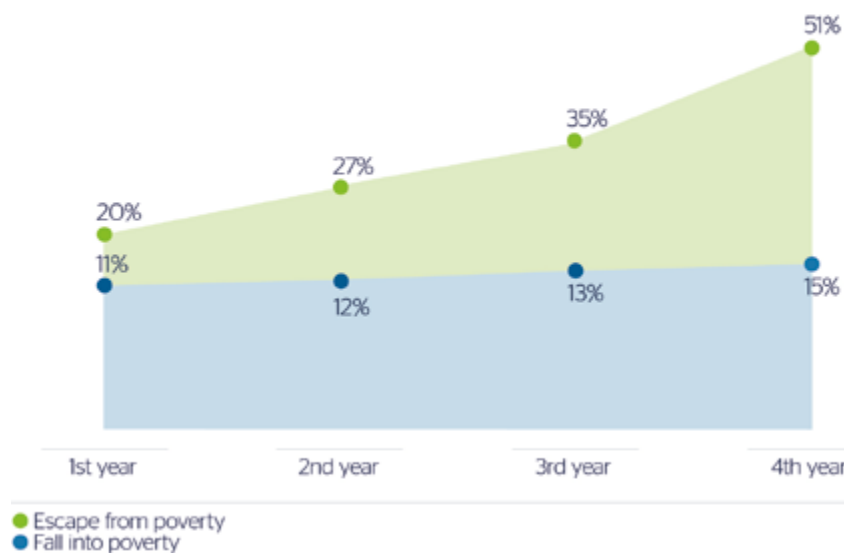
• *Poor* clients and those in *extreme poverty* need the same number of credits and renewals (four in all) to get over the PL threshold. The lower their income at the outset, the greater the growth (angle on the curve) that clients achieve. Disbursements in 2017 are in line with historic performance.

16. Clients 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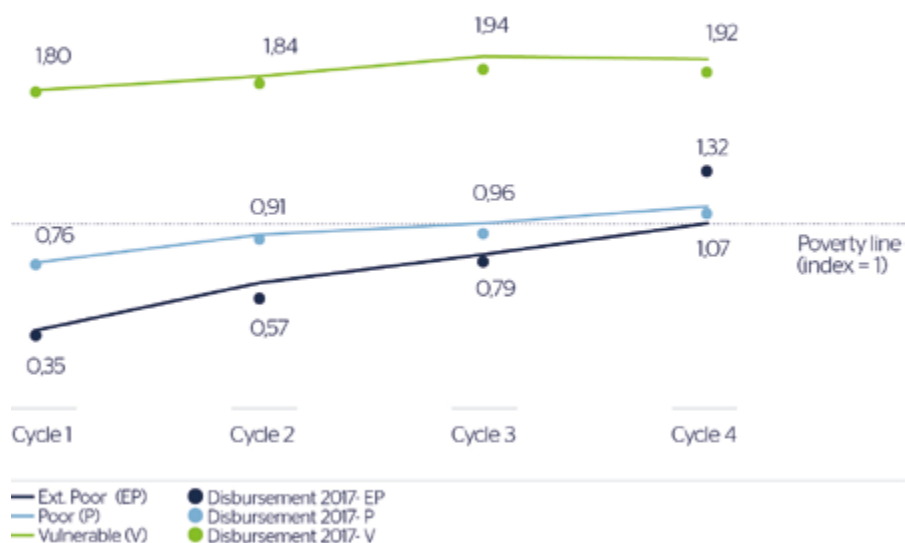 number of *non-poor* clients at the outset. **17.** For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at the outset (the first credit) showing the progress of monthly *p.c.* net income in each credit cycle, relative to 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.

16. Clients falling into and escaping poverty

Escape from poverty
Fall into poverty

Source: Microserfin. BBVAMF calculations.

17. Net income relative to the PL

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

Source: Microserfin. BBVAMF calculations.

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.
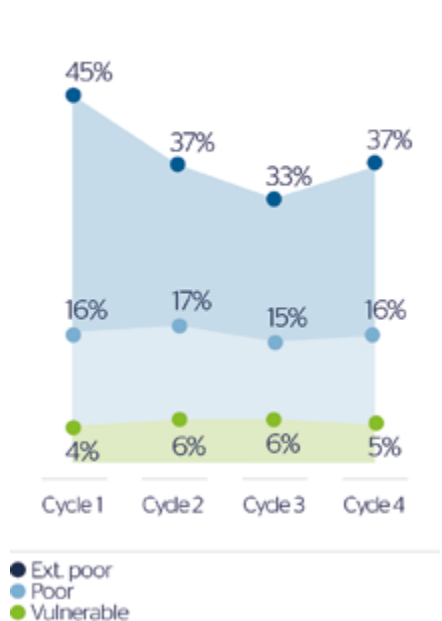
- Of *non-poor* clients, around 80% maintain their initial condition while 22% slip into poverty, of whom 10% do so temporarily.

- 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

- Ext. poor
- Poor
- Vulnerable

Source: Microserfin. BBVAMF calculations.

19. Net income volatility relative to the poverty line

- Volatile
- Escape from poverty
- Fall into poverty
- Stable

Source: Microserfin. BBVAMF calculations.

20. Clients falling into poverty

- Net income increases or remains the same
- Net income decreases, sales increase or remain the same
- Net income decreases; sales decrease

Source: Microserfin. BBVAMF calculations.

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.
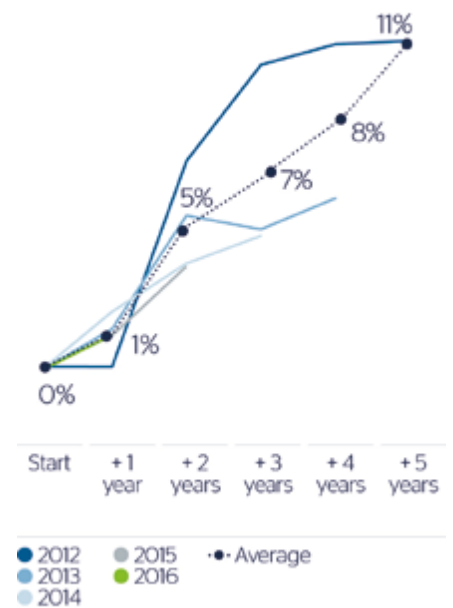
Indirect impact

• 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

No employees
1 employee
2-3 employees
4 or more employees
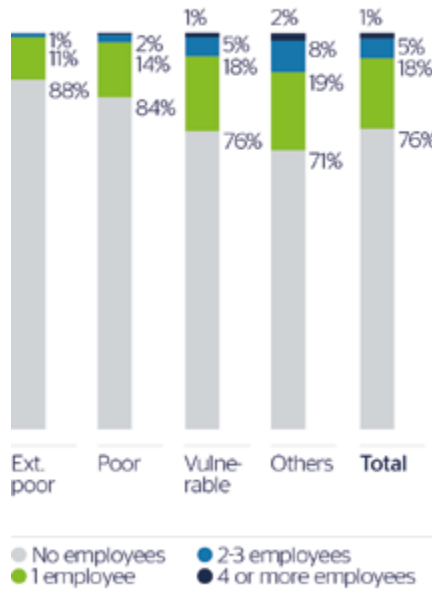
Source: Microserfin. BBVAMF calculations.

22. Job creation (by cohort)

2012 2015 Average
2013 2016
2014

Source: Microserfin. BBVAMF calculations.

23. Client improvement in housing (by cohort)

2013 2015 Average
2014 2016
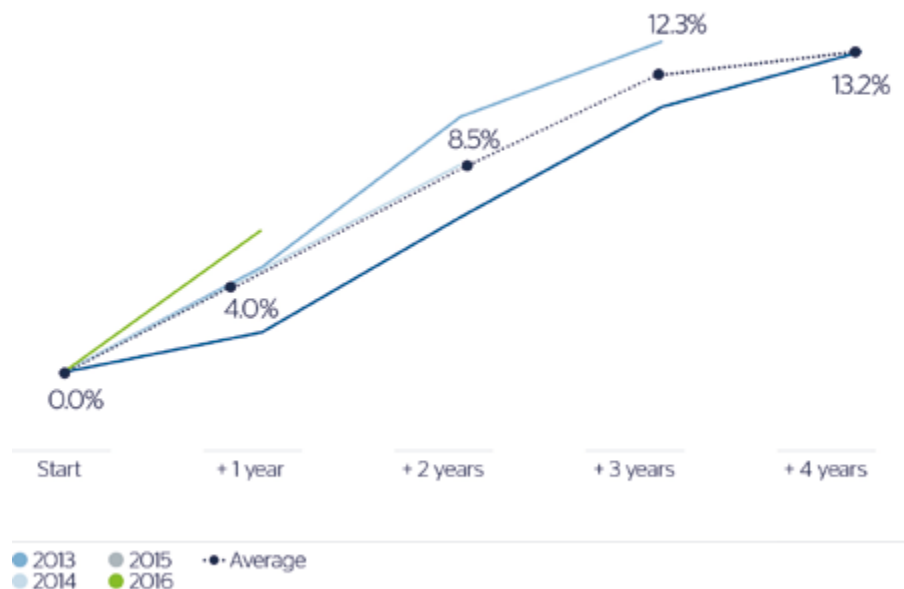
Source: Microserfin. BBVAMF calculations.

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

• 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. 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.

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

YoY 2017 2.1%
YoY 2017 14.9%

● Avg. monthly sales
● Avg. disbursement (USD)
● Avg. installment as % of sales
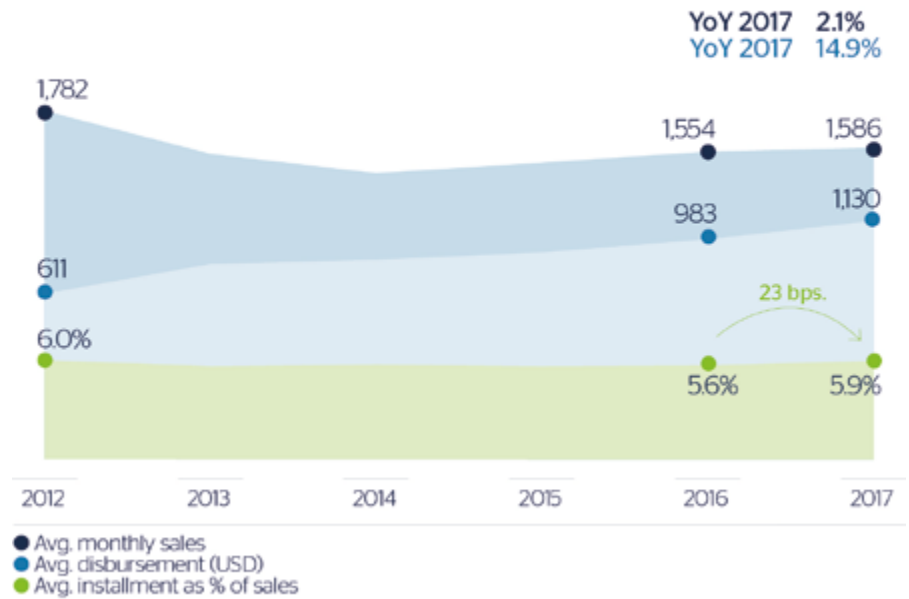
Source: Microserfin. BBVAMF calculations.

25. Average disbursement per transaction (by cohort)

● 2012 ● 2015 ·•· Average
● 2013 ● 2016
● 2014

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.

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)

- 2013: 6.6%
- 2014: 6.1%
- 2015: 5.8%
- 2016: 4.9%
- 2017*: 5.8%
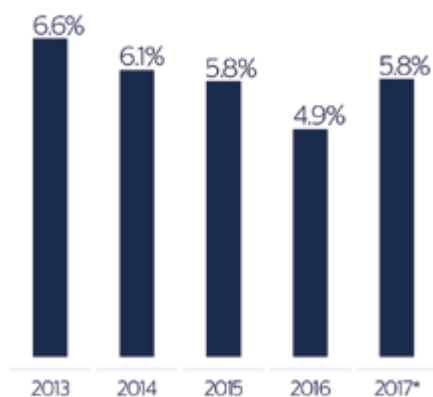
Source: MEF (Ministry of Economy & Finance).
* BBVAMF Research estimates.

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)

- Dec 13: 3.7%
- Dec 14: 1.0%
- Dec 15: 0.3%
- Dec 16: 1.5%
- Dec 17: 0.5%
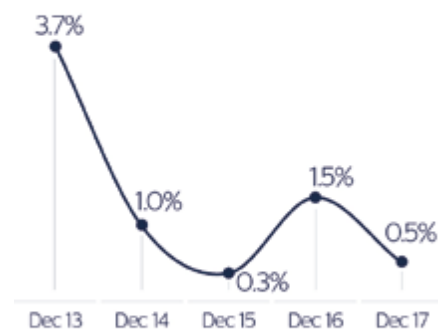
Source: MEF.

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.

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.
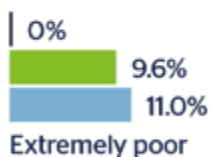
In rural zones, 40% of adults are financially included, leaving around 495,000 inhabitants of these areas outside the system.

Poverty: less trickle-down of growth on poverty reduction

Poverty (% of the population)
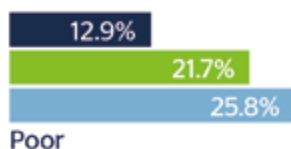
Poor
- 12.9%
- 21.7%
- 25.8%

Extremely poor
- 0%
- 9.6%
- 11.0%

● 2030 Goal   ● 2017*   ● 2014

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)

0.517
0.513
0.510
0.507

2013   2014   2015   2016
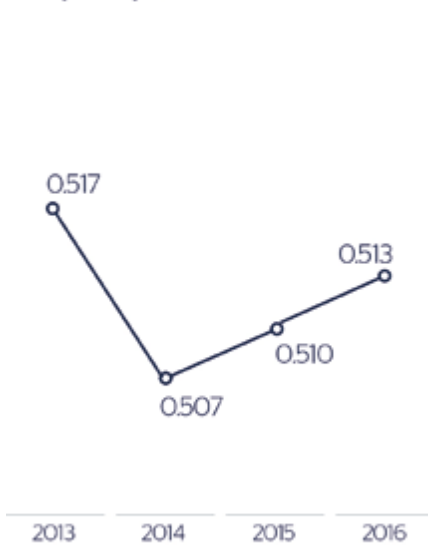
Source: MEF.

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.