

# 2014 SOCIAL PERFORMANCE REPORT

✖ For the third year running, the BBVA Microfinance Foundation (FMBBVA) has published its annual report on its social performance, this year entitled “Measuring what really matters”. Its core aim is to evaluate our delivery against our mission; to encourage inclusive sustainable economic and social development for the most underprivileged through Responsible Productive Finance.

✖ The report contains a set of indicators and metrics that give an objective picture of our customers, their businesses, and their economic and social development during the year in their relationship with the entities comprising the FMBBVA Group. Readers will see, for example, just how vulnerable some of our customers’ economic set-ups are, how near or far they are from the poverty line, their main socio-demographic features, the business activities they engage in, how their financial attributes change over time (sales, surplus cash flow, assets, etc) alongside their non-financial attributes (mainly health, housing and education). The 2014 report places special emphasis on drilling down deeper into more indicators reflecting our customers’ progress. After all, this is what we are all about.

It also presents a set of initiatives and programmes being carried out by Group entities that have a big social impact, and a macroeconomic analysis of each of the countries where we operate. Readers can also use the links provided to access videos on their mobile devices to illustrate and expand upon the content in the report itself.

In the Foundations department of Strategic Development and Impact Measurement, we are committed to an ongoing evaluation of our activity’s alignment with our mission. This report is a vital tool to ensure that we are on track.

Rodrigo Peláez  
*Head of Strategic Development and Impact Measurement*

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## Banking Correspondant Linkages and Financial Inclusion Strategies in Latin America

Teresa Boada Serret y Aylén Rodríguez Ferrari (May 2015)

This dissertation was written for the International Master’s degree in Entrepreneurial Finance at Madrid’s Autónoma University, supervised by Claudio González-Vega (PhD). The research endeavours to conceptualise the banking correspondent (BC) channel, putting it into context, to show that it is the most widespread innovation in the area of branchless banking. It also analyses different business models and evaluates upcoming challenges and trends in the channel’s development. It studies the impact of BCs on financial inclusion (such as access to and use of formal, appropriate and fit-for-purpose financial services by individuals and companies that have traditionally been excluded from the financial system). Cost reductions and the significant potential from extending geographical and human reach will enable BCs to push back the frontiers of financial-service provision.

The dissertation conducts a comparative analysis of the regulatory framework and business model of BCs in Brazil, Colombia and Peru, based on a review of the literature, an analysis of the regulatory framework, and by collating statistics on a range of indicators, as well as interviews with acknowledged microfinance experts. These countries pioneered BC activity. Its analysis of the direct and indirect development models for the BC network leads to the identification of operational gaps (in how alliances have been designed, liquidity management, security and fraud risks, cross selling, interoperability and ICT technologies), and also to the identification of best current practices. The conclusions explain how regulation that is flexible, while still safeguarding consumer rights, together with appropriate market incentives, is part of the route to success for BCs as instruments of financial inclusion.

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## “The 2015 Brookings Financial and Digital Inclusion Project Report” by Brookings Institution

Over recent times, financial inclusion has been creeping up the political agenda in several countries and has ceased to be a theoretical idea dreamed up at international summits. As more and more people and institutions are praising the benefits of financial inclusion, the Brookings Institute has tried to measure the efforts made in 21 countries with widely different geographical, economic and political characteristics. They have used 33 indicators and asked three fundamental questions: 1) Do country commitments make a difference in progress toward financial inclusion?; 2) To what extent do mobile and other digital technologies advance financial inclusion?; and 3) What legal, policy, and regulatory approaches promote financial inclusion?

Understanding financial inclusion to mean appropriate, affordable and easy access to financial services, Brookings publishes a Financial and Digital Inclusion Project Scorecard for 2015 (FDIP).

The authors analysed the financial inclusion landscape in Afghanistan, Bangladesh, Brazil, Chile, Colombia, Ethiopia, India, Indonesia, Kenya, Malawi, Mexico, Nigeria, Pakistan, Peru, the Philippines, Rwanda, South Africa, Tanzania, Turkey, Uganda, and Zambia.

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## “Digital Savings: The Key To Women’s Financial Inclusion?” by Women’s World Banking

Women’s World Banking, as part of its mission to promote female financial inclusion, has published “Digital Savings: The Key to Women’s Financial Inclusion?” with five best practices for digital savings amongst low-income women.

The document highlights that women tend to be inherent savers. It shows that despite scarce and irregular income streams, they are estimated to save between 10% and 15% of their earnings. However, barriers to mobility and the cultural and time constraints that they face on a day-to-day basis make it hard for them to access a safe place to save. Thus, digital savings offer them a secure, low-cost solution, enabling them to set aside small amounts of money, using new channels such as mobile phones and retail agents. Nonetheless, the authors recognise that low educational levels that slow down the take-up of new technologies are another part of the gender gap world-wide.

It also shows that financial services, in general, have not been designed to be female-friendly, thinking about how low-income women might need to use them. It mentions the benefits that financial entities and other stakeholders in this sector (such as MNO's, mobile network operators) could derive from focussing more on women's needs in their strategies. This would not necessarily mean creating differentiated products for men and women. MNO's are digital innovation leaders, but so far have designed services for payments rather than for savings or insurance. Yet mobile wallet users of all sexes have been seen to use their new wallets as if they were a savings tool, suggesting a more widespread untapped demand for digital savings.

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## “Corporate governance in Microfinance Institutions” by the IFC

This document, published in June by IFC, highlights the importance for Microfinance Institutions (MFIs) of a solid corporate governance system, given their growth in recent years and the increase in their scope and range of activities.

After an introductory chapter about the microfinance industry, how it has developed and the type of institutions involved, the document looks at how good corporate governance impacts MFIs and their corporate structure. It tackles the crucial role of the Board of Directors and their supporting bodies in managing risk.

It then dedicates a chapter to analysing the external factors influencing the corporate governance of MFIs and their day-to-day management. It concludes with a review of the responses from governments, investors and the microfinance industry to changes in the area of corporate governance, as applicable to microfinance institutions; and then makes proposals for the next steps that need to be taken in order to make good practice more widespread in the microfinance industry.

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## “Corporate governance in MENA: Success Stories” by the IFC

This publication shares the experiences of 19 companies in the Middle East and North Africa, which

have enhanced their corporate governance systems in recent years, after being advised by the IFC and applying their techniques.

The authors start with three main sections, setting out issues that the companies faced and comparing how they dealt with them:

Improvements affecting the Board of Directors: composition, diversity, clarification and intensification of duties, support committees, effective appointment procedures and performance assessment;  
Improvements in management control and other enhancements: intensifying risk management, updating the internal auditing function, turning the Human Resources area into a strategic area with adequate support;  
Results achieved from applying good corporate governance practices: increased access to funding, positive impact on reputation and profitability, reduction in organisational inefficiencies, greater sustainability.

One section of the document outlines the importance of corporate governance from the investor perspective, proving that it plays a key role in their investment cycle, and in creating value.

The report provides a profile of the 19 companies analysed, listing the corporate governance practices applied and the impact they have had.

The document shows that corporate governance has a substantial impact not just on how institutions raise capital, but also on their profitability, reputation, sustainability, efficiency, effectiveness and value creation.

Read the report clicking [here](#)

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## Good practice guide for institutions listed on the Mercado Alternativo Bursátil

The guide, published in June this year and compiled by Bolsas y Mercados Españoles, aims to provide institutions trading on the Mercado Alternativo Bursátil (MAB) with information about key issues for efficient listing and delisting.

As well as going over the obligatory legal compliance framework, the guide also offers recommendations, policies and procedures based on best corporate governance practices. It advises institutions trading on the alternative stock market on the optimisation of their reputation management and considers that the guide can be used as a consultation tool. The goal is for institutions to generate trust among their stakeholders and set out roadmaps to ensure best practices in disclosure, management and good governance.

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# Latin America and the rising south: changing world, changing priorities

The report produced by the World Bank on Latin America and the Caribbean looks at the global trends in trade and finance driving the region's development at the outset of the 21st century and the region's profound transformation between the end of the 90s and the beginning of the new millennium.

For over 100 years the disparity between the economically developed nations and Latin America and the Caribbean remained almost unchanged, but from 2000 onwards, with the boom in commodity prices and the South's subsequent increased participation in the global economy, the North's primacy over the South became less marked. The study reports how income growth among the poorest 40% was greater in Latin America and the Caribbean than in the rest of the world. Nevertheless, the foundations of that growth have now weakened and Latin America is currently in its fourth year of slowing growth.

The "rising South" process is analysed in order to showcase the policies that enhanced development in the region and to set future goals for sustainable growth in the medium and long term.

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## "Corporate governance principles for banks" by Basel Committee on Banking Supervision

In July the Basel Committee on Banking Supervision (BCBS) published its principles of corporate governance for banks.

The document presents thirteen fundamental principles emphasising the critical importance of effective corporate governance for the proper functioning of the banking sector, and more specifically the essential role played by their boards of directors in implementing efficient systems to achieve sounder risk management and decision making.

It emphasises the relevance of the collective competence of the board of directors as well as the obligation of individual board members to devote sufficient time to their mandates and to keep abreast of developments in banking.

It also provides guidance for bank supervisors in evaluating the processes used by banks to select members of the board and senior management.

These principles supersede the principles published in 2010, defining a framework of purview for banks and supervisors to promote sound risk management systems and transparent decision-making in order to reinforce market confidence in such institutions and help create a more robust banking

system as a whole.

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# “Simplified Savings Accounts” by Verónica Dos Santos y Carla Espinatto (Master in Microfinance in Universidad Autónoma de Madrid)

Verónica Dos Santos and Carla Espinatto (May 2015)

This is a dissertation written for the International Master's degree in Entrepreneurial Finance at Madrid's Autónoma University, under the supervision of Claudio González-Vega (PhD.) and Luis Calvo Soux (MSc). The research attempts to identify relevant features of the regulations regarding a simplified format for opening bank accounts, known as Cuentas de Expediente Simplificado (CES), in several Latin-American countries, in order to assess their potential impact on financial inclusion. Although low-income people often manage to save, they do not usually do so through a savings or deposit account in a formal financial institution. Know Your Customer policies (KYC) for avoiding money laundering and the financing of terrorism have created access barriers, making it hard for the least well-off to obtain financial services, as financial institutions are now obliged to request documents to identify their customers that poor people often do not have or cannot afford.

The CES were created as a means to overcome these barriers, simplifying the process of opening an account, by reducing the number of documents and other time-consuming arrangements required to open a savings account. Above all, they are intended to make it easier to open and manage accounts using non-traditional touchpoints, such as mobile banking, internet banking or banking agents in order to reduce customers' needs to go to a bricks-and-mortar branch to solve their problems.

The dissertation assesses the impact of this possibility on the financial inclusion of people in eight Latin-American countries: Brazil, Colombia, Ecuador, Guatemala, Mexico, Panama, Paraguay and Peru. It identifies the key features of CES and the distribution channels that it enables. It compiles and reviews the relevant literature on already existing initiatives of this kind, and provides a comparative analysis of the laws and regulations in the countries studied. It also gives interviews with experts from various Latin-American countries involved in the development, implementation and regulation of CES.

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## “Encuesta de medición de las

# capacidades financieras de los países andinos en 2014” by CAF

With the aim of establishing the levels of financial literacy in Bolivia, Colombia, Ecuador and Peru, CAF – Banco de Desarrollo de América Latina, through the Asociación Solidaridad Países Emergentes (ASPEm), took part in carrying out a survey developed by the Organisation for Economic Cooperation and Development (OECD), open to people of all levels of educational attainment and income, in markets with different degrees of financial inclusion.

The survey results are broken down by country. However, in general terms major socio-demographic gaps can be seen, particularly by gender, geographical location, level of studies and of income.

Thus, the study shows that there is an important positive relationship between financial knowledge and behaviour, and between saving and financial literacy. Lower financial literacy is observed among those with lower educational attainment, people not in the workforce and the unemployed; those living in rural areas; people in the lowest socioeconomic groups; women, and young people.

The report has five sections:

The first puts the analysis in context and provides details on certain financial inclusion indicators;

The second presents the basic statistical features, the methodology used and the profile of the interviewees;

The third analyses the results obtained;

The fourth shows the results by country of the indexes of knowledge levels, behavioural patterns, attitudes and financial literacy, broken down by different population groups; and

The fifth sums up the main findings and formulates the study’s main conclusions.

Specifically, the report analyses results obtained in Peru in 2014, with regard to: (i) financial planning; (ii) awareness of financial products; (iii) behaviour and attitudes towards money; and (iv) the assessment of basic financial concepts.

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## “Microfinanzas y TIC. Experiencias innovadoras en Latinoamérica” by AFI, IDB, FOMIN and with the collaboration of Telefónica and the Telefónica Foundation

The book “Microfinanzas y TIC, experiencias innovadoras en Latinoamérica”, edited in collaboration

with the Interamerican Development Bank, Analistas Financieros Internacionales, Telefónica and the Telefónica Foundation, analyses the impact of Information and Communication Technologies (ICT) on microfinance in Latin America.

The study analyses the contribution of ICT to the development of microfinance, the progress made in terms of conditions of access and use to financial products and services, as well as their expansion to remote areas and/or excluded sectors of the population. The authors highlight how the combination of microfinance and ICT has promoted economic development in Latin America and people's welfare, through innovation, efficiency and effectiveness.

The report describes the most important aspects of microfinance in Latin America at present, the challenges for the future and good market practices that help it to flourish.

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## “The EU and Latin America and The Caribbean in the new economic and social context” by ECLAC

This report was published by the Economic Commission for Latin America and the Caribbean (ECLAC) for the Summit of Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) and the European Union (EU), held in Brussels on the 10th and 11th June 2015.

The document begins with an introductory chapter analysing the EU and CELAC's economies and societies in an international context suffering significant changes in four arenas: the technology revolution, the globalisation of consumption patterns, the growing weight of the Asian economy in the global economy, and progressive environmental pressures.

The second chapter tackles three issues that are important for sustainable development: (i) the short and medium term dynamics of economic growth, productivity and employment; (ii) progress made in social inclusion and the route to greater equality; and (iii) the challenges of environmental protection.

The third chapter analyses trade relations and investment between both regions, bearing in mind the recent performance of international trade and bilateral foreign direct investment flows.

Finally, the last chapter studies the dynamics of the main sectors in which there is European investment in the region. It considers the problems facing micro, small and medium sized firms, and the considerable narrowing of the gap in the digital economy.

In conclusion, the report aligns itself with the tagline of the Summit: *“Shaping our common future: working for prosperous, cohesive and sustainable societies for our citizens”* and concludes that if both regions work together, progress can be made along the path of sustainable development coupled with greater equality.