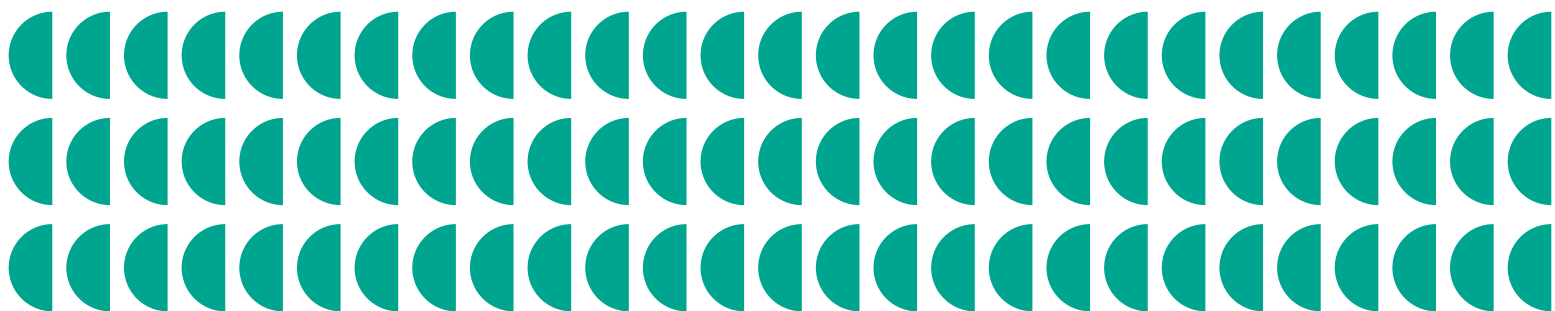


Chile

Fondo Esperanza

 SOCIAL PERFORMANCE
REPORT **2018**



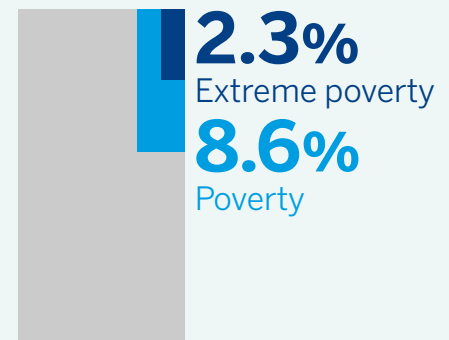
Building up stories, building on success

National data



% Poor

According to the national poverty line¹.



26%
unbanked adults².

1. CLIENTS

Committed to vulnerable people

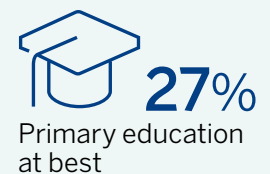
Total credit clients³

124,530



New credit clients 2018

46,186



Source: Fondo Esperanza. BBVAMF calculations.

(1) National poverty rate according to Ministry of Social Development. (2) Global Findex 2017. (3) Data as of 12.31.2018.



2. PROGRESS

Working with them as they develop



Of those that signed up for a new product in 2018, 87% improved their income.



In their second year banking with the institution.

...and their projects grow



Annual growth rate.



Annual growth rate.

3. RELATIONSHIP

Providing timely and relevant products and services

Branch offices



Loan officers



School for entrepreneurs

People receiving financial education:

Average disbursement

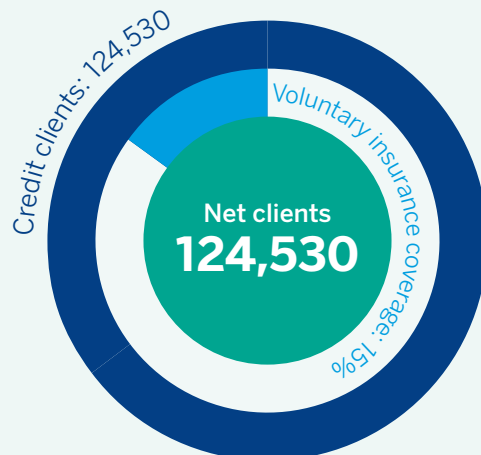
Total clients

served in 2018:



New clients

(first loan) served in 2018:



Introduction

Given that Chile is a country that places particular importance on entrepreneurship, Fondo Esperanza is a key ally in supporting entrepreneurs to finance and expand their businesses. Fondo Esperanza's vocation lies in mentoring entrepreneurs throughout their journey, using an integrated microfinance model.

The environment in which Fondo Esperanza operates is an interesting one. In 2018 the Chilean economy grew by 4,0%, driven by the uptick in domestic demand, and more specifically in investment, with a significant spike in the durable goods component. In the first semester, the economy expanded by around 4.9%, buoyed up by one-off factors that contributed to the upturn in non-mining activity. In the second semester the economy moderated, growing by 3.1%. This was due to a more demanding basis for comparison and poorer performance in mining and industry.

The expansion in 2018 has closed the activity gap, supporting stronger price momentum in the service sector and non-tradables, triggering an increase in inflation throughout 2018, which closed the year at around 2.6%. The monetary policy rate rose by 25 base points, ending the year at 2.75%, causing shorter-term interest rates to rise accordingly.

Despite the economy's stronger performance, the unemployment rate edged up by 0.6 percentage points to 7.1%. There was a 1.4 percentage point fall in the informal occupation rate, which closed 2018 at 28.6%. Poverty as measured by income stood at 7.9%, a reduction of 0.7 percentage points from 2017. This puts the country's poverty levels at one of the lowest in Latin America.

Multidimensional poverty (people who suffer deficiencies in education, health, work, social security and housing) has remained the same. In 2015 the proportion of people with these shortfalls was 20.9% and by 2017 the situation had only improved by 0.9p.p., posting at 20.7%.

Around 74% of adults are banked, and Chile has one of the lowest gender gaps in terms of financial inclusion. 49% of adults have made some kind of saving in the last year, and 45% have received a loan of some sort.

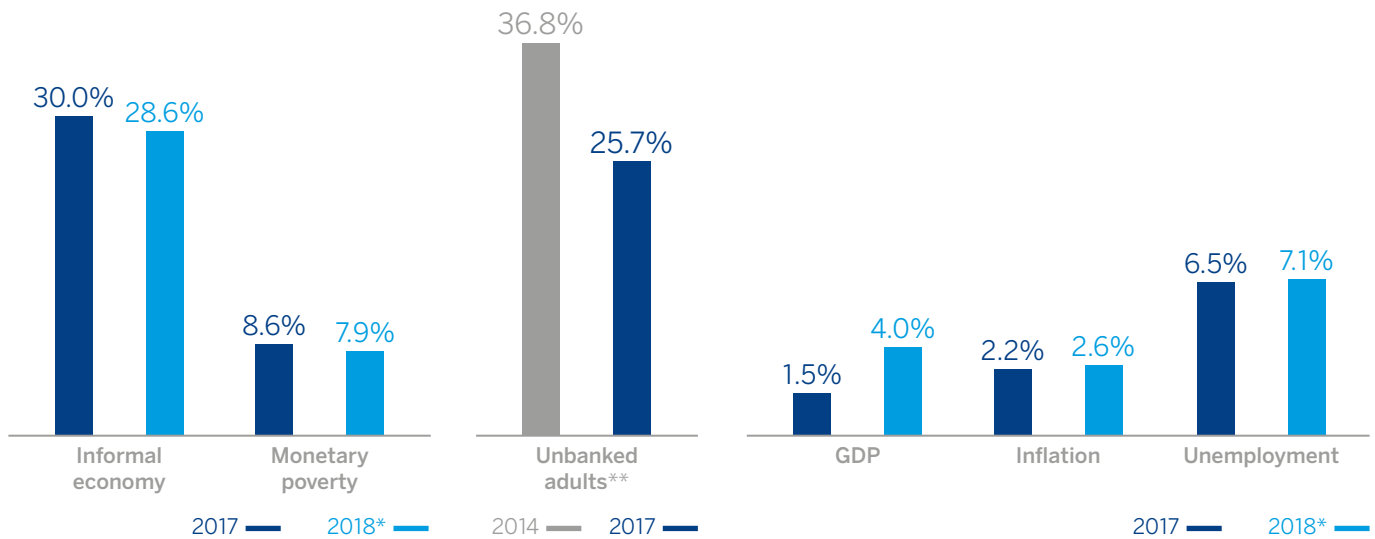
According to figures from the Economy Ministry, in Chile there are around 2 million microentrepreneurs¹, more than 85% of whom are self-employed². Chile is a country with a strong entrepreneurial spirit, coming third in an international ranking on this quality, according to a Randstad³ (2017) survey. The main limitations to microentrepreneurial growth are the lack of both financing and clients, a diagnosis that is same for those microenterprises with the lowest earnings⁴.

¹ Independent workers who own an economic unit employing up to 10 workers (including themselves). Microentrepreneurial Survey <https://www.ine.cl/estadisticas/laborales/eme> (in Spanish only).

² INE, 5th Microentrepreneurial Survey, 2017.

³ INE, 4th Microentrepreneurial Survey, 2015, Workmonitor, Randstad (1st quarter 2017, 33-country survey).

⁴ BBVA Research Chile.



This is especially relevant in the case of women, who find that entrepreneurship gives them the opportunity to make their home and working roles compatible. Of all enterprises, 39% belong to women, who nearly always work from home.

24% of microentrepreneurs in Chile took out a loan last year. 76% have not yet accessed the financial system⁵.

Supporting female entrepreneurs is particularly important, because their businesses are smaller and they have less specialized training. That is why they not only access financing but are also helped by the School for Entrepreneurs to receive training, become empowered and generate their own networks.

Productive Finance plays a key role in this context. Of the three institutions offering microfinance services in Chile focused solely on vulnerable entrepreneurs, Fondo Esperanza SpA. (Fondo Esperanza) served nearly 70% of the entire segment, accounting for over 120,000 clients (of its approximately 170,000 clients in total).

⁵ INE, 5th Microentrepreneurial Survey, 2017.

Source: Chilean Central bank and Casen survey.

* BBVAMF Research estimate.

** Global Findex World Bank, 2014 & 2017.

KEY VOLUMES⁶

Total clients

124,530

Number of employees

615

Number of branches

56

Gross portfolio (USD)

81,947,313

People receiving financial education

172,743

Amount disbursed in 2018 (USD)

271,074,255

Number of disbursements in 2018

316,374

Average disbursement in 2018 (USD)

857

⁶ USD/CLP: 694.80, at 12.31.2018, BBVA Research.

Introduction

Fondo Esperanza was set up in 2002 by Hogar de Cristo [Home of Christ], and has been run since 2011 by BBVAMF. From its beginnings it has always sought to support people in vulnerable sectors to transform their standards of living, those of their families and communities, broadening their opportunities through financial services, training and networks that enable them to develop sustainable enterprises. It does this using two methodologies, one with groups (group lending) and another with individuals (development credit). Its extensive footprint over the country has enabled it to reach regions with higher levels of poverty, doubling its size in the last 5 years.

One of Fondo Esperanza's unique features is its comprehensive education program, the "School for Entrepreneurs", that mentors entrepreneurs throughout their group lending journey, going above and beyond financial education and business development, incorporating issues around empowerment, family welfare and social capital. It also constantly seeks to reduce overhead costs by using technology for the services it offers in the field, as well as digitalizing the vulnerable entrepreneur segment. The Somos Fe [We are FE] app is already a real proposal that has won the PwC Chile award for Social Innovation. Digitalization is set to become one of the greatest challenges in the next few years.

There is a great opportunity to provide vulnerable entrepreneurs in Chile with financing, training and other tools so that they can invest in productive assets, generate revenues and improve their standard of living. Fondo Esperanza is backing them and analyzes the performance of the clients it serves. Specifically, it is committed to serving vulnerable people, measuring the performance of their enterprises against the nation's poverty lines.

PRICE OF THE BASIC FOOD BASKET

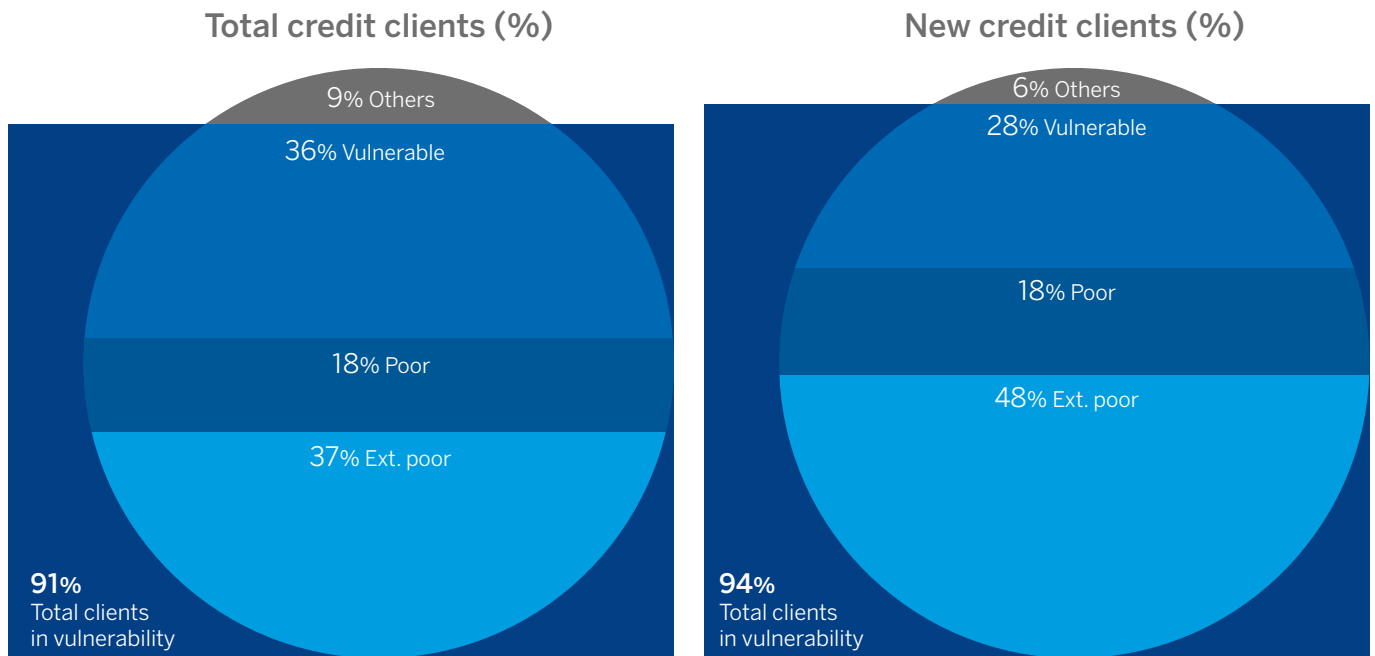


Chile's high standards of living, compared with the rest of Latin America, mean that its poverty line is much higher than in other countries. Given that the current methodology for measuring poverty by income sets an extreme poverty line that in the case of Chile covers not only food but also basic goods and services, this is higher than the basic food basket. The poverty line varies according to the size of the household. While the basic food basket costs USD 61, the extreme poverty line is set at USD 154 and the poverty line at USD 230⁷.

Clients who were new to Fondo Esperanza in 2018 have average monthly earnings of USD 187 for each member of the household, ie. 3 times the basic food basket. This shows the relative size of the enterprises being financed.

⁷ Poverty lines published by the Social Development Ministry, updated using end-of-year CPI.

CLIENT ECONOMIC VULNERABILITY*



48% of new clients in 2018 were below the extreme poverty line, which contains food, goods and services classified as basic in line with the country's standard of living, and are thus in the extremely poor category.

18% of new clients generate revenues that oscillate between the USD 154 of the extreme poverty line and the USD 230 of the poverty line (classified as poor). Clients who succeed in getting over the poverty threshold face the challenge of stabilizing their incomes, since there is a high likelihood that they will fall back into poverty (those classified as vulnerable). The threshold for this category is having net income of less than 3 times the poverty line (USD 691). 28% of new clients served in 2018 are vulnerable. Only 6% of clients have more stable incomes.

Over 91% of its total 124,530 clients are in vulnerability, according to internal measurements.

The institution's service model involves continuous mentoring and a smooth rise in credit so that clients can adjust their finances gradually. Entrepreneurs continue to trust the institution and 74% sign up for a second credit. Their continued efforts are reflected in sustained growth and encouraging results: in the second year of their relationship with the institution, 49% of clients who had been poor at the outset overcome poverty.

* According to the Social Development Ministry's poverty line, new methodology. Clients whose income (estimated as the business surplus divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three are classified as vulnerable.

1. Our clients

SOCIOECONOMIC PROFILE

In 2018, Fondo Esperanza looked after nearly 125,000 clients, onboarding over 46,000 new clients. More than 34,000 (74%) of these are women with a higher vulnerability profile (97%, against 88% in the case of men).

Despite the high proportion of female clients, there is a wide gap with men: their average monthly net incomes are 52% those of men's. This indicates that women's businesses are more precarious and, furthermore, support more people; while the average female client's household has 3.7 members, the average for men is 3.2 people. In addition, 38% of female clients are heads of household.

Vulnerability can be analyzed from many angles. The critical one is that of income, in which we note that most clients (66%) generate net incomes that are below the poverty line (PL). Extremely poor clients' enterprises generate an average monthly USD 65 (USD 2.1 a day or 40% of the PL), while poor clients' enterprises generate USD 136 monthly (82% of the PL figure).

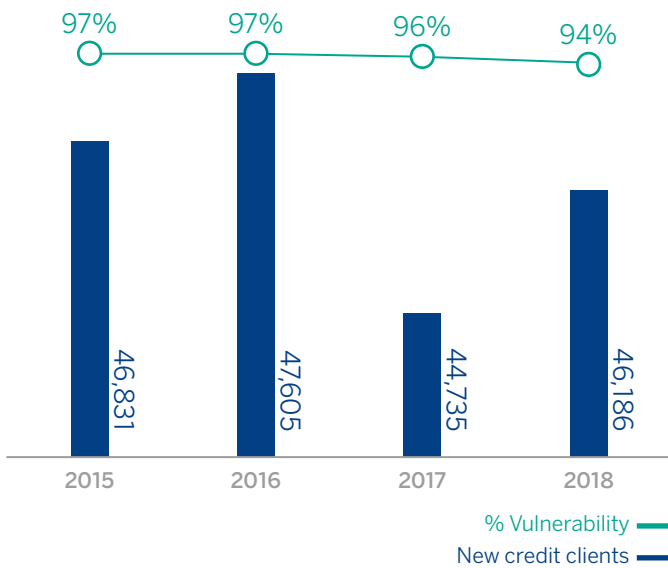
Another aspect worth pointing out is that the institution serves the poorest regions of the country (11% of new clients live in rural areas) and clients with low educational levels (27% of new clients have primary education at best). This is significant in a country with high levels of education. Those with primary education at best encounter more obstacles to getting into the job market, and the percentage of those with an account in a financial institution falls by 20 percentage points, to 54%⁸.

The principal reason why clients become entrepreneurs is to increase their income. 15% of women do so in order to look after their families while also working, compared to 2% of men who are motivated to do so for this reason.

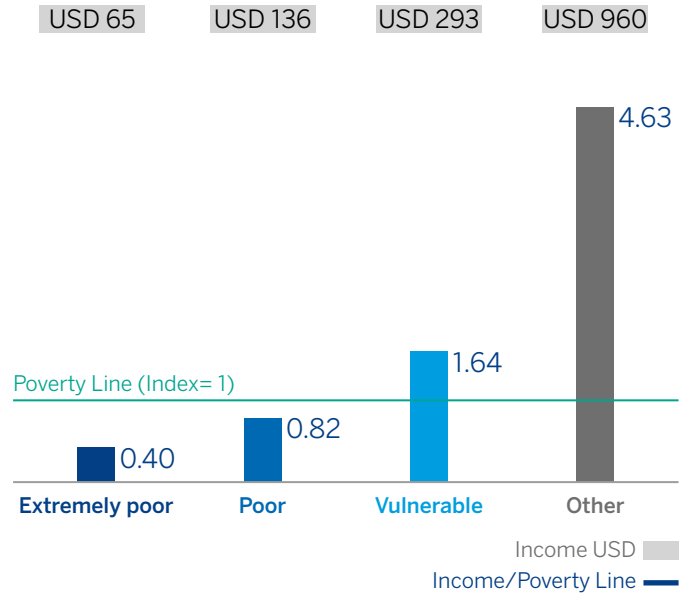
(1) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.
 (2) According to each country's official poverty line. New clients (no previous loans) signed up over the year.
 (4) New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.

⁸ Global Findex 2017.

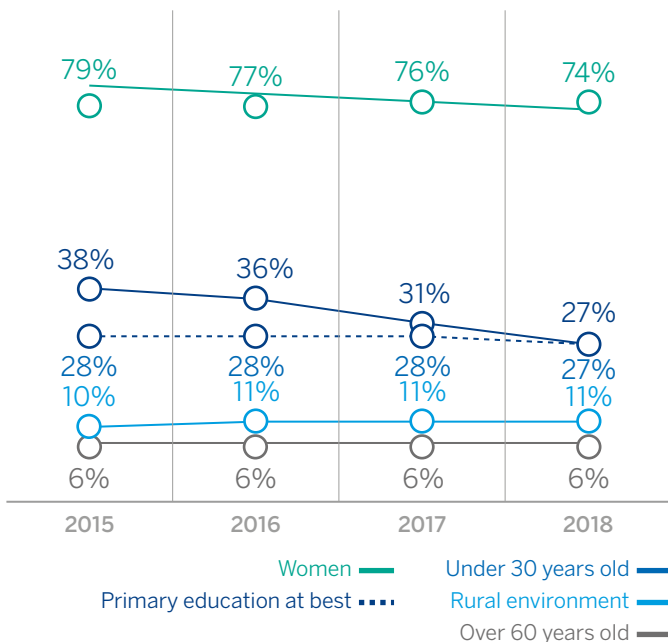
1 NEW ENTREPRENEURS SERVED
New credit clients by cohort



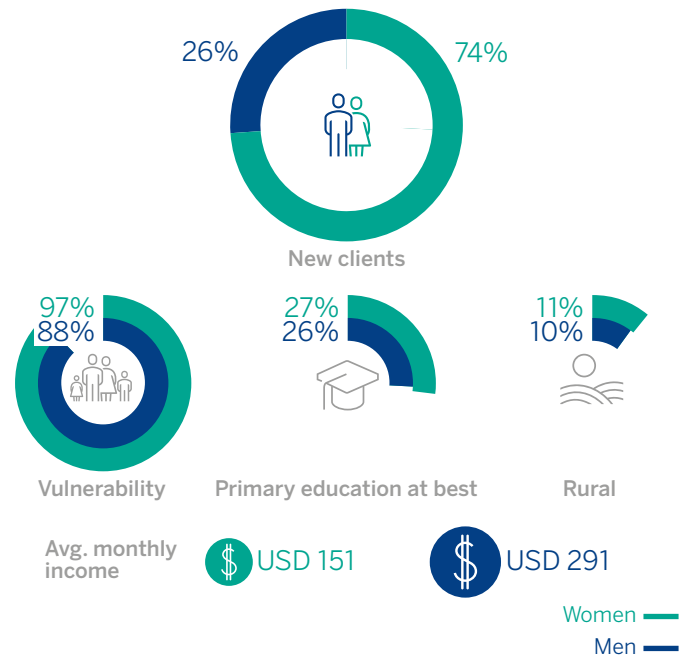
2 ENTREPRENEURS' INCOME
Income against Poverty Line



3 NEW CLIENT PROFILES
New clients by cohort (%)



4 PROFILE BY GENDER
New credit clients (%)



1. Our clients

PROFILE OF THEIR BUSINESSES

Fondo Esperanza clients, who are predominantly women, work in retail trade (small stores, grocery outlets, etc.). In recent years there has been growth in production and transformation activities (bakeries, shoe stores, etc.). Since it is a more productive sector, 33% of its sales are kept as net income, compared to 28% in trade.

Of the new clients served during the year, 13% worked in the services sector, businesses that, while not generating any higher sales than others, since they have lower operating expenses, can provide higher final net incomes. These services may possibly require more infrastructure and technical skills, so they have higher barriers to entry.

According to the Chilean Ministry for the Economy & Tourism's Gender and Enterprise Bulletin published in November 2018, 39% of the country's enterprises are managed by women. Their main reason for running their own business is to earn higher incomes and be able to manage work and bringing up their families at the same time. The many roles that have traditionally been demanded of women means that they are in charge of looking after their children or other family dependents, which is the case with Fondo Esperanza's new entrepreneurs, 15% of whom start their own business so that they can also look after their family and/or children, compared to 2% of men who do so for this reason.

A retail business is a quick and efficient way of working from home. This ratifies the national trend: 46% of women develop their businesses from the family home, compared to just 20% of men⁹. Of new Fondo Esperanza clients in 2018, 38% worked from home, either because they did not have commercial premises (27%), or because these premises formed part of their home (11%).

An analysis by sector shows that as clients make progress overcoming poverty, they acquire more assets in all sectors, with agriculture being the sector requiring most assets. The proportion between the average assets of non-poor and poor clients is about double, while that of sales is practically triple in all sectors, appearing to indicate significant economies of scale.

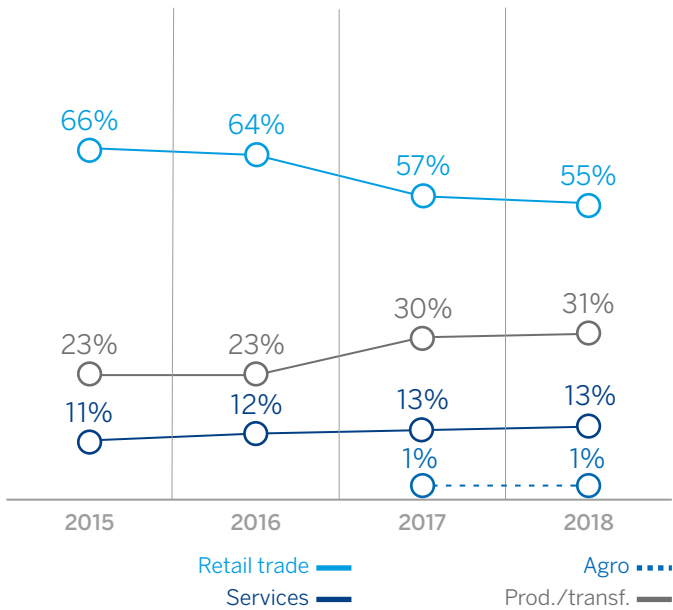
Most clients work in retail trade, but production and transformation businesses are beginning to account for more of them.

(6) Data on average monthly sales and average assets in each sector, segmented by clients below the poverty line (PL: extremely poor and poor) and clients above the PL (vulnerable and others).

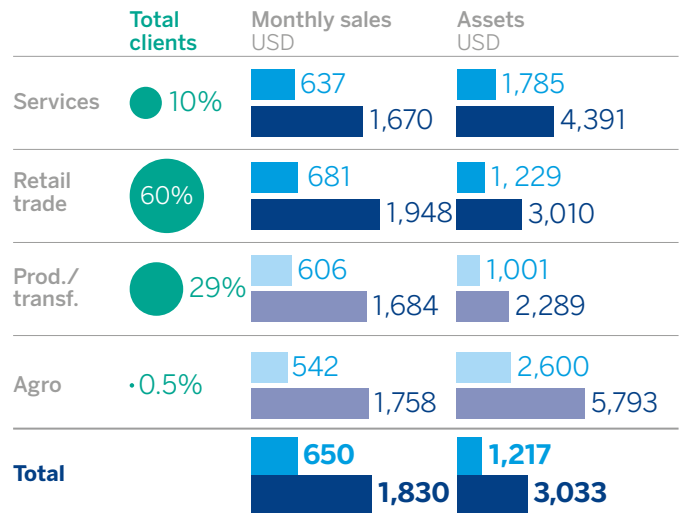
(7) Ratios of average costs over sales in each sector. Earnings are recorded after payment of the financial installment.

⁹ <https://www.economia.gob.cl/2018/11/16/boletin-genero-y-microemprendimiento.html> (in Spanish only).

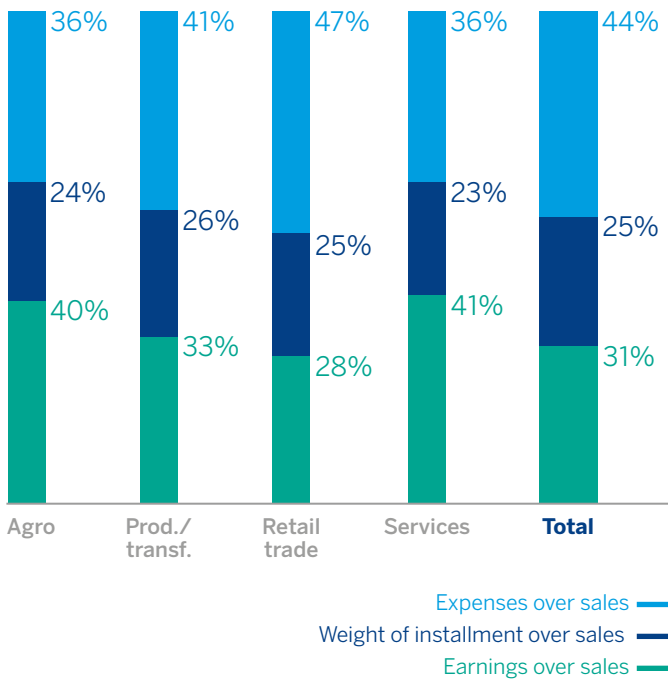
5 ACTIVITY SECTOR
New clients by cohort (%)



6 RELATIONSHIP BETWEEN SALES & ASSETS
Total credit clients, poor and non-poor



7 P&L- MARGINS OVER SALES
Total credit clients



90% of loans are used to buy merchandise or inputs, which enable people to generate sales in the short term.

2. Our clients' development

GROWTH OF THEIR BUSINESSES

Fondo Esperanza is characterized by its close support and mentoring of clients through group lending meetings (groups into which clients organize themselves and are joint guarantors, also known as solidarity banking) based on small, short-term loans (3.5 to 7 months), gradually increasing the amounts and the terms.

Given the small size of enterprises and their potential, the financial volumes of sales, surpluses and assets grow at very high rates, enabling a large number of clients to get ahead.

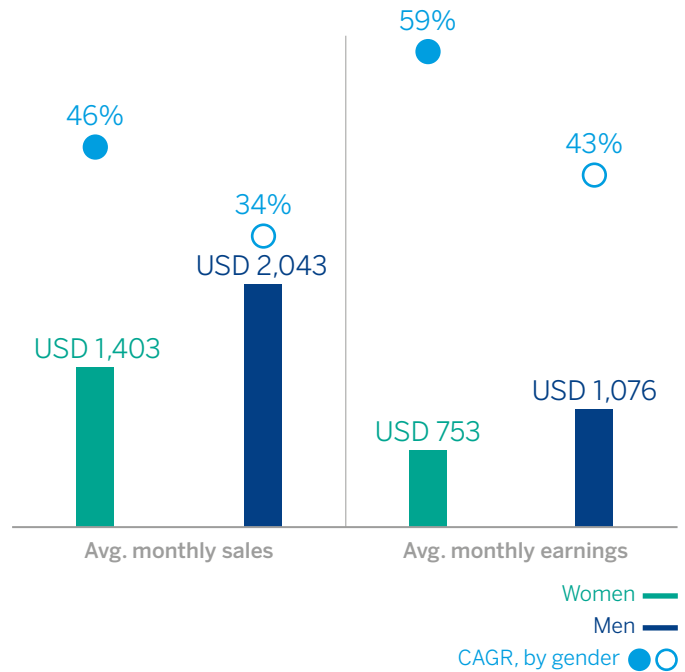
This is a reflection of these entrepreneurs' enormous efforts and the impact that access to financial resources can have, since their sales and net incomes are given a huge boost. The challenge for microenterprises is to raise their productivity and economies of scale, increasing in both size and innovation, which means that those leading them must be trained. Fondo Esperanza offers an 18-module educational program with an average of 3 sessions in each module which aims to mentor clients as they make this qualitative leap.

The data indicate that production and transformation businesses are slightly smaller than those operating in other sectors, but nevertheless grow at a higher rate. That is why the number of clients working in this area is expanding too.

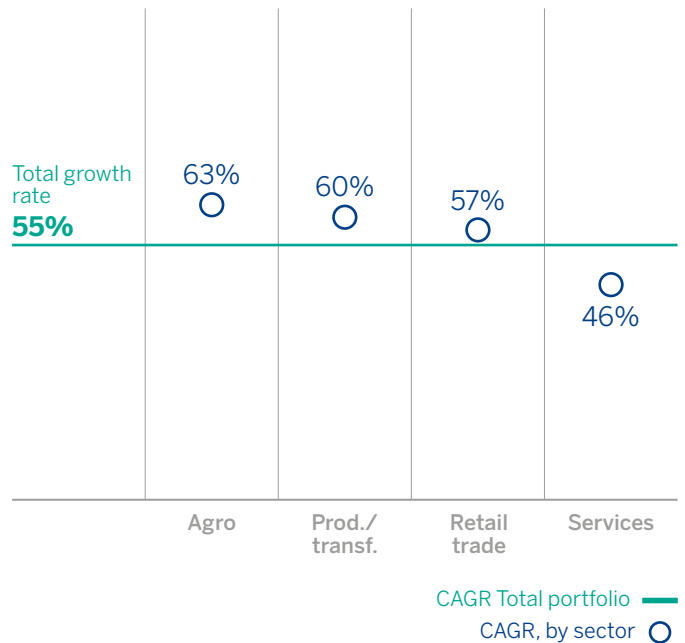
(8) Data on clients current at some point over the year and who have rolled over a product with the institution (hereinafter "renewing clients"). The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates for each gender.

(9) (10) Data on renewing clients. The compound annual growth rate (CAGR) for cohorts (entry year) between 2013 and 2018 was used for the calculation, taking the weighted average of these rates for each sector.

8 GROWTH IN FINANCIAL VOLUMES, BY GENDER
Compound annual growth rates



10 GROWTH IN EARNINGS
Compound annual growth rates

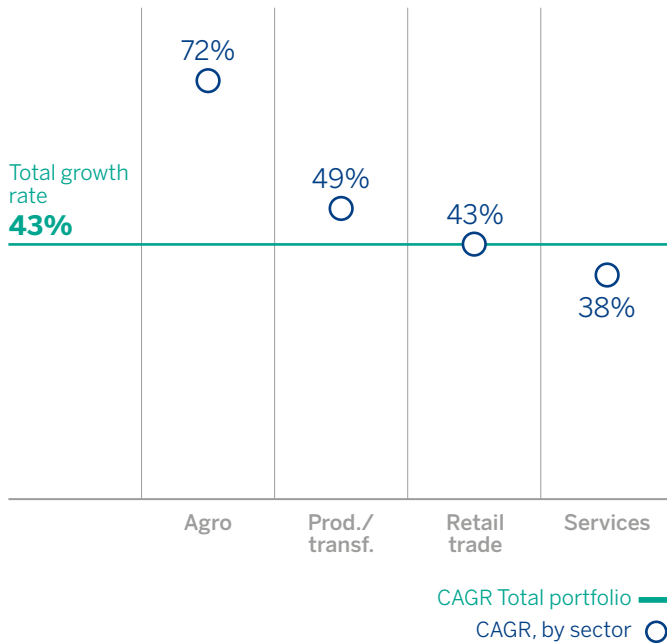


CAGR Total portfolio —
CAGR, by sector ○

9

SALES GROWTH

Compound annual growth rates



Fondo Esperanza is continually working towards better understanding its clients and how their businesses develop, in order to meet their needs more closely.

Following the route of entrepreneurs on their journey with Fondo Esperanza

Fondo Esperanza has an impact on the lives of thousands of partners who make up Chile's biggest community of entrepreneurship in solidarity. This impact is apparent in the Social Indicators File [*Ficha de Indicadores Sociales (FIS)*] – a set of variables that shows their entrepreneurial and social development – at two moments on the client's progress (those who have just taken out their first loan with group lending, and then after they have been with the institution for a year and a half).

The Fingerprint File, a new survey taken this year in which clients self-assess regularly, enables them to analyze how their business income is progressing.

This expands the information available to date. In other words, over one quarter we measure the income of around 20 thousand clients with FIS; with Huella [Fingerprint] we measure it for 64% more (approx. 33,000 clients).

Given that the client is at the center of everything we do, since 2018 this information has been calculated more frequently, in particular going beyond the fifth credit (we follow their fingerprint). We need to continue drilling down in our understanding of clients and their needs over time. Fondo Esperanza has done so, extending the scope of this information several times by means of new processes and infrastructure.

These strategies for adapting to an increasingly digital environment represent a change in microfinance in Chile, enabling the institution to strengthen its knowledge of its clients, while giving it flexibility and adaptability, since all the information is in the cloud.

2. Our clients' development

ESCAPE FROM POVERTY

Sustained growth in entrepreneurs' businesses is reflected in solid, continuous performance. If the variation in the poverty segment is analyzed by the time that has passed, we see that during the second year, 53% of clients who were poor at the outset overcome poverty. In the face of an unexpected eventuality, non-poor and vulnerable clients, taken together, have a 12% likelihood of falling back into poverty.

Given that, currently, the information held about clients is updated on the fourth or fifth credit (meaning, on average, after a year and a half with Fondo Esperanza), we see a jump in their performance. If we look at how their income is progressing (relative to the poverty line) we see how it has grown by the fifth credit (see Fig. 12). And how clients who were below the extreme poverty or poverty line manage to get over it. This improvement may have been happening earlier. Our entrepreneurs' efforts are particularly robust when their incomes are lower: the average income of clients who were extremely poor at the outset triples between the first and the fifth cycle.

As we have noted, this escape from poverty is not guaranteed, since clients face mishaps that may cause them to fall back in. If we consider clients in the medium term (all those who have had 5 loans with the institution) who were in poverty at the outset, the most probable outcome is that they overcome this situation. 43% of them do so in this period and only 21% remain in poverty. The remainder will suffer another income shock.

Non-poor clients (with net incomes above the poverty line), can also find themselves in situations that put their finances at risk and eat into their surpluses. Of clients who have had 5 credits, only 33% stay consistently over the poverty line. This low proportion shows that the clients we serve are very vulnerable, since as well as having low incomes, they experience a great deal of volatility. This volatility is greater in urban environments, perhaps due to greater competition or other barriers facing them.

It is critically important that entrepreneurs have a degree of income stability so that they can take financial decisions with a longer time horizon, sacrificing immediate or short-term income in favor of medium/long-term improvements.

(11) Renewing clients. Clients leaving due to non-payment (who have been written off) are excluded from the "escaping poverty" category.

- Escape from poverty: Clients in poverty at the outset of their relationship with the institution (classified as extremely poor and poor) who have generated income taking them over the poverty line.
- Fall into poverty: Clients not in poverty at the outset of their relationship with the institution (classified as vulnerable and other), who have generated income below the poverty line.
- Net reduction: Escape from poverty minus entry into poverty.

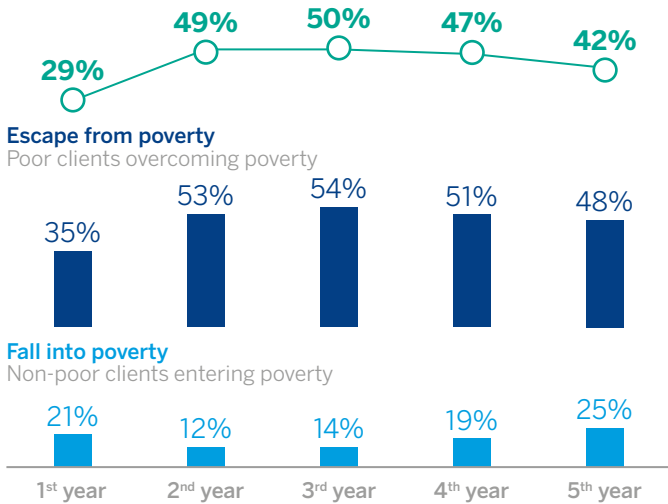
(12) For the sample of clients served during 2018—classified according to their situation when they took out their first loan—net income per capita at each credit cycle is shown, relative to each country's poverty line (current in the year of the disbursement). Relative per capita net income has a value of 1 when it is the same as the poverty line figure.

(13) (14) Sample of clients served between 2011 and 12.31.2018 who have had at least five disbursements. The number of times a client crosses the PL is analyzed. Volatile: Clients whose incomes fluctuate across the PL more than once.

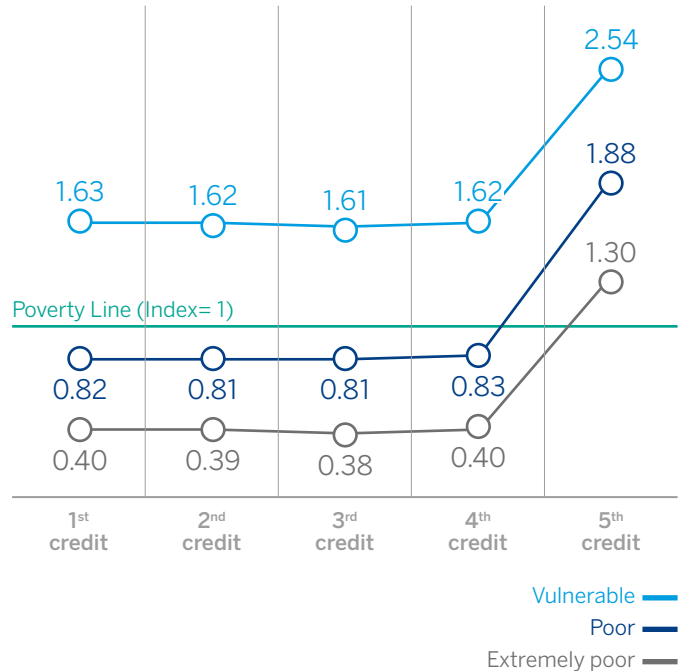
- Escape poverty: Poor clients at the outset whose income surpasses the PL (and is not reported as falling back).
- Fall into poverty: Non-poor clients at the outset whose income falls below the PL (and is not reported as recovering).
- Remain poor (or non-poor): Clients who remain poor (or non-poor) throughout the five disbursement periods.

11 VARIATION IN POVERTY SEGMENT

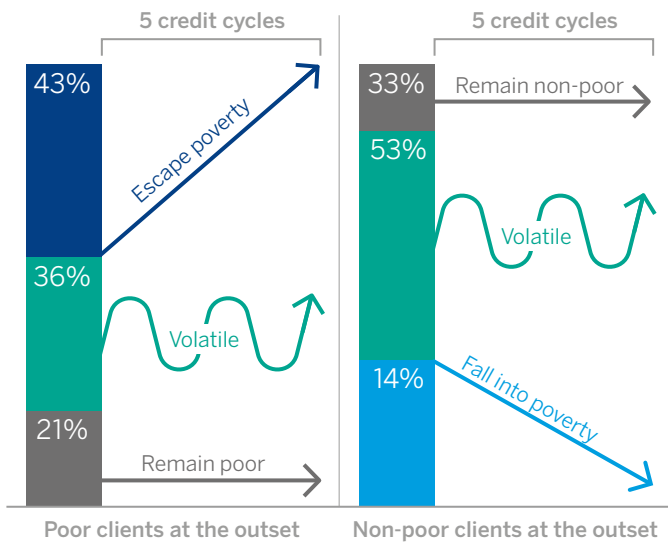
Net poverty reduction



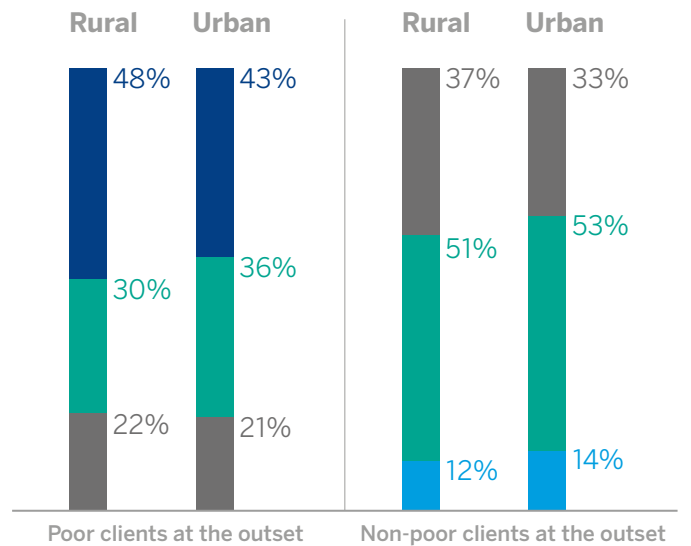
12 GROWTH IN INCOME
Income of segment over Poverty Line



13 INCOME VOLATILITY
Clients with 5 credits, classified by n° times they fall below/overcome PL



14 INCOME VOLATILITY - RURAL/URBAN
Clients with 5 credits, classified by n° times they fall below/overcome PL



Escape poverty — Volatile —
Fall into poverty — Remain poor/non-poor —

2. Our clients' development

INDIRECT IMPACT

The impact of businesses on their direct surroundings can be multiplied if jobs are created. In Chile only 17% of microenterprises are capable of generating employment, with the remaining 83%¹⁰ being self-employed. The smaller size of clients' businesses means that normally they are focused on generating a source of income for the entrepreneur and for their family. 9% of Fondo Esperanza clients have employees in their business, and the more significant their development, the more employment they create.

The measurements conducted by official bodies (CASEN Survey) also show the important role that shortcomings in housing play in explaining vulnerability and non-monetary poverty in Chile (multidimensional poverty).

Fondo Esperanza clients have been able to implement improvements in their homes, increasing their entire families' standards of living: after 4 years, 12.6% of clients have made upgrades that, while they may look modest, have an enormous impact on their homes.

In the segment served by Fondo Esperanza, financial services clients need mentoring, but not only by the institution. In Fondo Esperanza, the support of all the group lending participants, combined with the education plan offered by the institution, helps microentrepreneurs to improve their technical and business skills and how they manage their finances. Clients value particularly highly the network creation intrinsic to group lending.

In 2018, Fondo Esperanza developed and rolled out its innovative Somos FE [We are FE] program, a social network in a digital environment exclusive to our institution's entrepreneurs, where they can interact and promote their products (see Special Project pg. 242).

9% of Fondo Esperanza clients succeed in creating employment and 3% of the total do so for two or more people in their community.

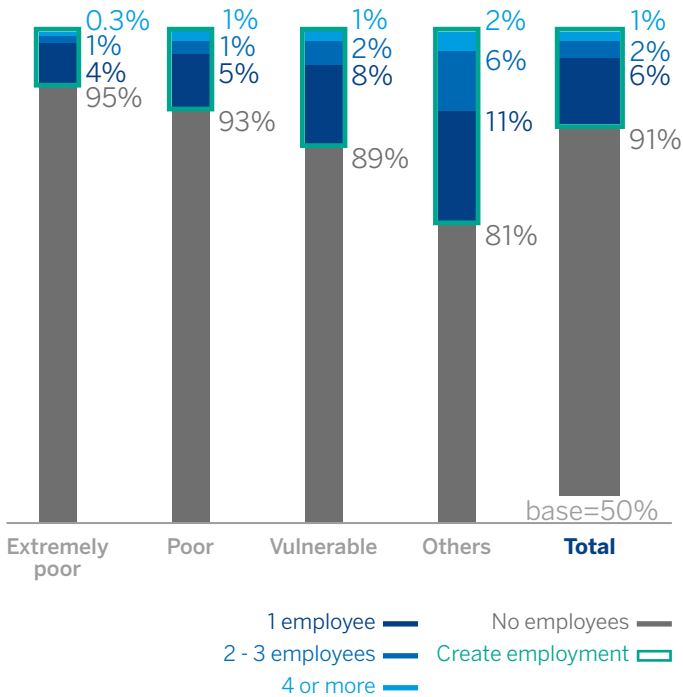
¹⁰ National Statistics Institute (INE),
5th Microentrepreneurial Survey, 2017.

(15) Number of employees in current clients' business at 12.31.2018.

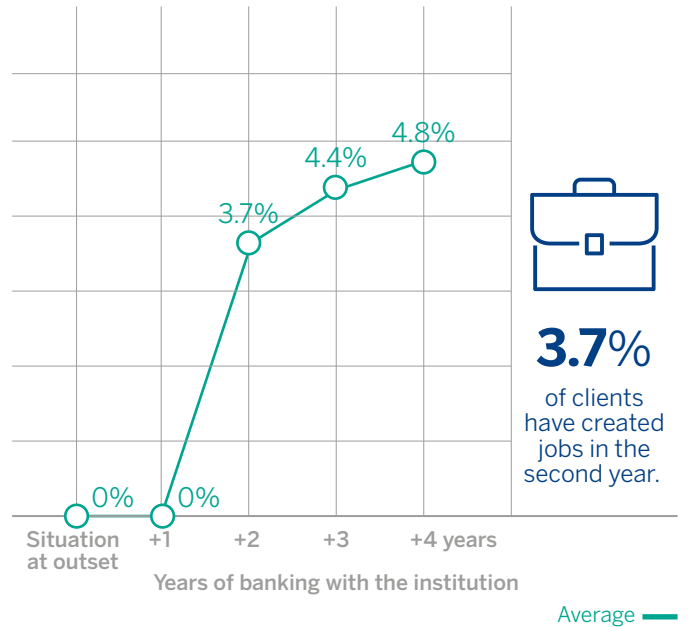
(16) Increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2018. Averages for the 2013–2018 cohorts (year of entry).

(17) Proportion of clients current at 12.31.2018 of each cohort, who have improved their housing situation (bought their own home).

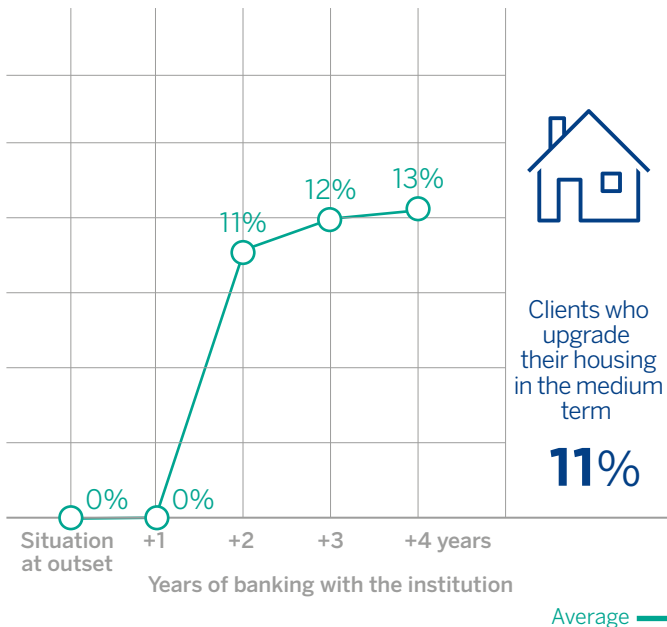
15 EMPLOYEE BREAKDOWN
Clients according to n° of employees in their business



16 JOB CREATION
Credit clients who hire employees (%)



17 HOUSING UPGRADE
Credit clients who improve, by years spent banking with the institution (%)



3. Relationships with clients

RELATIONSHIP WITH OUR CREDIT CLIENTS

Fondo Esperanza’s more than 120,000 clients are microentrepreneurs who can make investments in their businesses to upgrade them and take them to the next step when they receive financing. Fondo Esperanza’s methodology is based on short cycles in which entrepreneurs receive financial education and training to take control of their finances and improve their businesses.

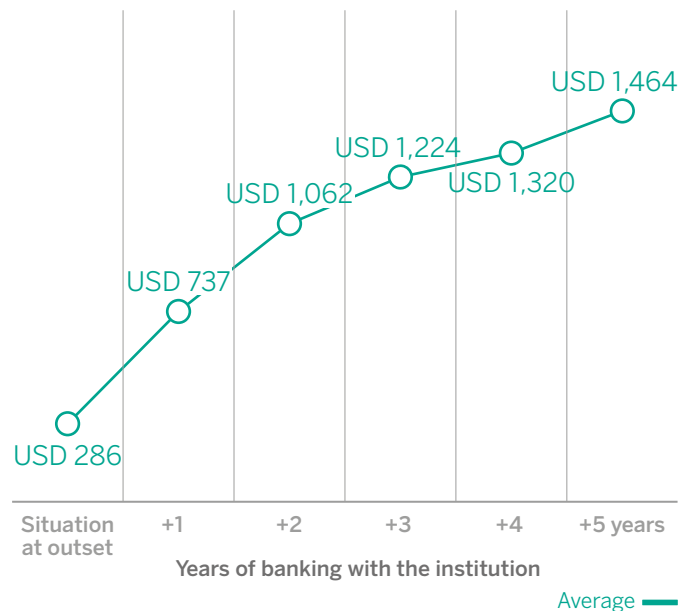
The first disbursement made to new clients served between 2013 and 2018 was on average USD 286, with an average credit term of 175 days, after which they could access a second credit cycle. 74% of clients apply for this next loan, with an average disbursement of (USD 737), so doubling the first credit.

Chile’s microfinance industry needs to increase the services offered to entrepreneurs, which is why Fondo Esperanza provides insurance products. Over the course of 2018, 15% of its clients took out voluntary insurance, 2 percentage points higher than the 2017 figures.



19 GROWTH OF AVERAGE DISBURSEMENT

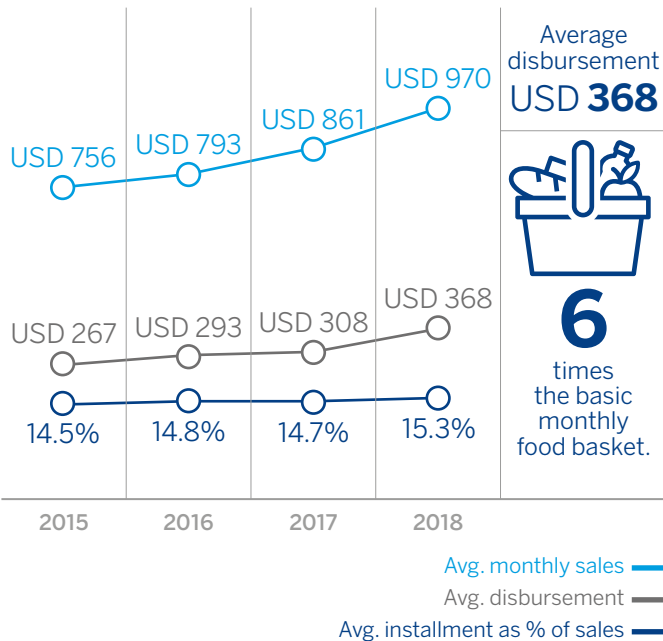
Change, by duration of relationship



(18) New clients. Average disbursement, calculated as the average first disbursement for new clients each year. Weight of the installment calculated as each client’s average ratio (loan installment payment over sales).
(19) Clients in each cohort on date of each data collection. Value at the outset is the average initial value of the 2013–2018 cohorts, to which the average growth of the disbursement by the 2013–2018 cohorts (year of entry) is applied.
(20) Retention: Percentage of clients in each cohort (year of entry) that remain current at the end of each year and up to 12.31.2018. Averages of the 2013–2018 cohorts. Recurrence: Clients served since 2011. Percentage of clients who, after their first loan, take out another. The distance between cycles is the gap (in days) between disbursements of one credit and those for the next (the first one need not necessarily have been cancelled).

18 SALES, DISBURSEMENT AND WEIGHT IN INSTALLMENT

New clients by year of entry



“You are forbidden not to smile at your problems, not to fight for what you love, to leave it all behind out of fear, not to turn your dreams into reality.”

Pablo Neruda
Poet and diplomat

20 RETENTION & RECURRENCE

Of credit clients

Clients with performing credit after x years

	Situation at outset	+1	+2	+3	+4	+5 years
Retention	100%	44%	30%	24%	21%	19%

Clients with a 2nd, 3rd... credit

	1 st credit	2 nd credit	3 rd credit	4 th credit	5 th credit	6 th credit
Recurrence	100%	74%	59%	50%	42%	38%
Distance (days)	–	175	165	165	160	157

We connect people so that they can generate more opportunities



Margarita López
Fondo Esperanza Client

Since Margarita López downloaded Somos FE at the beginning of 2018, she has seen her kids' footwear and clothing sales business grow thanks to her work on the network. Her sales have increased and she connected with 10 new clients in less than six months.

"One of my biggest sales using the app was when some entrepreneurs from the city of Castro contacted me wanting to buy patent leather shoes. I sold 35 pairs!"

The app is an incentive for people to promote their business online, which nowadays is essential for trade. What is more, it is very simple. Since it is a nationwide platform, there are no limits, either of coverage or of reach; entrepreneurs from any sector, and from all round the country, can contact one another.

Support networks are an essential feature if entrepreneurs are to develop. This support, with the use of technology platforms, makes new ways of communication easier and creates a new market.

In Chile, around 90% of homes have internet access, and 95% of people who access it do so with mobile devices. To optimize the products and services it delivers, Fondo Esperanza (FE) decided to create a solution that generates value for its clients while making it easier for entrepreneurs to contact and communicate with FE staff members.

That was how **Somos FE** [We are FE] was born, an innovative mobile app unique in the microfinance world, that can be used on Android and iPhone systems. Somos FE is a community in which both clients and FE employees can post publications, offer products and services, make comments, interact with other users and stay informed about different activities going on, whether locally or nationally.

It is designed to be easy and straightforward to use for clients and so that it can generate new business opportunities for them, increasing their scope and creating a (virtual) space where they can develop their brand identity, generate loyalty among existing clients and find new suppliers.

The app was launched in January 2018. In just 10 months nearly 18,000 entrepreneurs downloaded it. They share their daily experiences, generate communications and sales networks, and strengthen their commercial links. It is worth pointing out that, according to FE's annual satisfaction survey, 85% of entrepreneurs who used the app gave it a 6 or a 7 (out of a maximum score of 7).

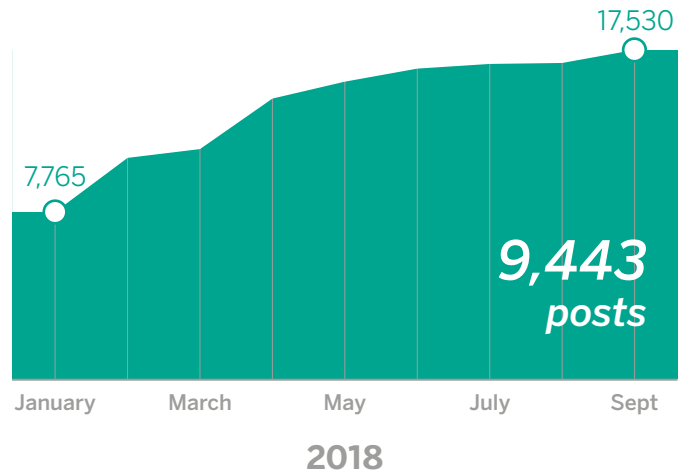
APP SOMOS FE



Nº OF SOMOS FE MEMBERS

Over 27,000
"Likes"
in this period

+125%



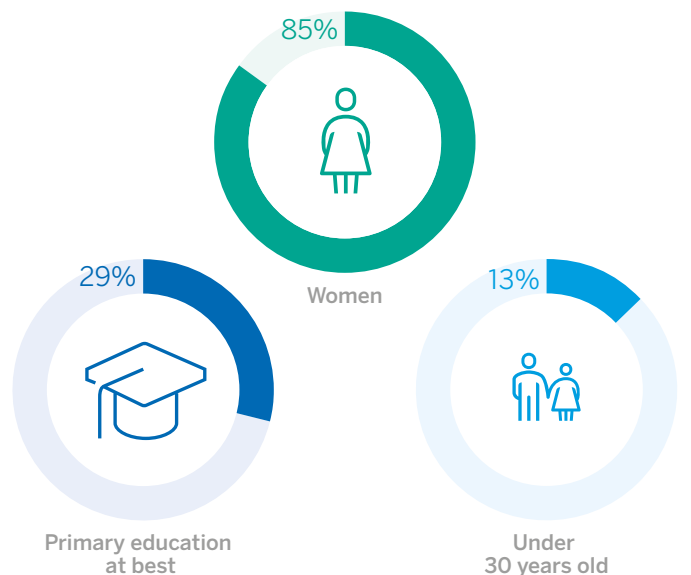
CLIENT PROFILE

Predominantly **women clients with higher levels of education** and older than the average for the Fondo Esperanza portfolio.

Virtual entrepreneurs' network for exchanging information, goods and services, which triggers collaborative networks

What you can do on Somos FE:

- Share your experiences with other entrepreneurs and learn about theirs
- Offer products and services
- Find collaborators
- Stay informed about training and courses available in the area
- Interact with Fondo Esperanza employees and offices



Macroeconomic environment

ECONOMY¹

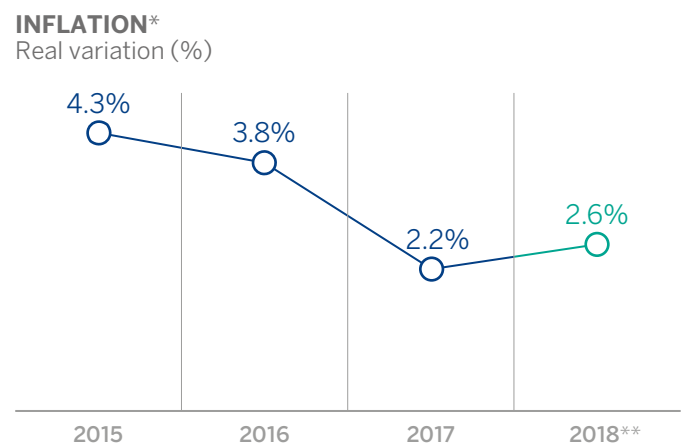
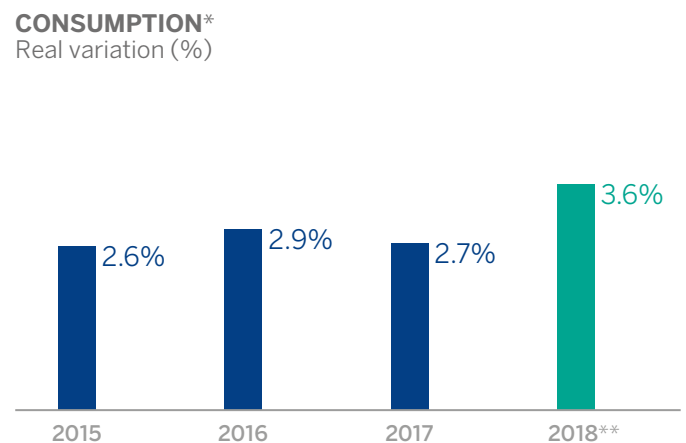
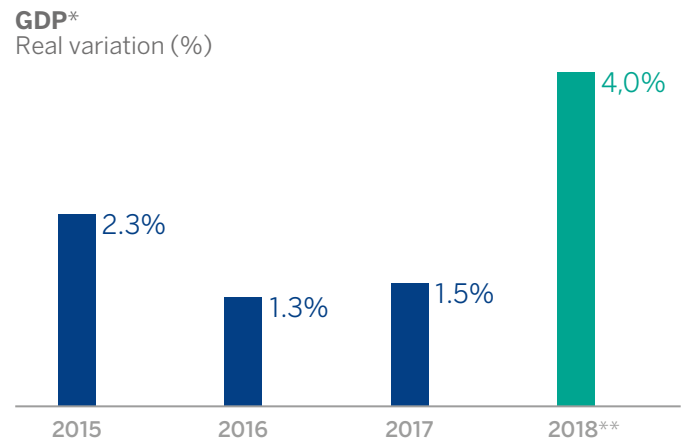
In 2018 the Chilean economy was much more dynamic than in preceding years, growing by 4.0%, fueled by the recovery of domestic demand, principally of investment, particularly the sharp spike in the durable goods component. In the first half the economy expanded by 4.9%, boosted by one-off factors that favored greater momentum in non-mining activities, especially trade, business services and industry. Domestic demand also grew strongly, reflecting greater expansion in private consumption.

However, in the second half the economy slowed, growing by 3.1%, accounted for by a more demanding basis for comparison and poorer performance in mining and industry. These sectors dragged down export momentum and their contribution to growth, in line with the fall in international copper prices and less favorable terms of trade in this period. Consumption also decelerated, due in part to higher unemployment and the fall in the real wage growth rate.

Growth over the year has closed the activity gap, putting the rise in GDP close to its potential, driving more dynamism in prices in the services sector and in non-tradables. This caused inflation, after slipping down to below 2%, to rise throughout 2018, posting at around 2.6% by year end. Goods inflation was 1.5% and in services 3.6%. Prices associated with the tradable sector rose by 1.8%, while those in the non-tradable sectors did so by 3.4%.

Underlying inflation (excluding from the basket a pre-specified quantity of products with volatile prices or whose price variation is a result of factors that are mainly exogenous to the economic cycle) came in at 2.1% in 2018, slightly above the figure for 2017 (1.9%).

Another factor that impacted on inflation in 2018 was the depreciation in the exchange rate, which slid by 12% against the US dollar, due to the greater strength of the latter globally and market turbulence, bringing the real exchange rate to levels close to its 10-year average.



¹ All data from the Chilean central bank. Estimates to the end of 2018 by BBVAMF Research.

* Chilean central bank.
** BBVAMF Research estimate.

Performance in the real sector, as well as price changes, meant that in October the central bank raised its monetary policy rate by 25 base points, taking it from 2.5% to 2.75%, the level at which it closed the year. As inflation converges towards the target, monetary stimulus will be reduced in order to align monetary policy with the medium-term inflation target of 3%.

Shorter term interest rates have risen in accordance with monetary policy developments, while long term rates and risk measures have remained stable due to favorable domestic financial conditions. In the area of credit, the cost remains low and placements are showing more movement.

EMPLOYMENT, POVERTY AND WELFARE²

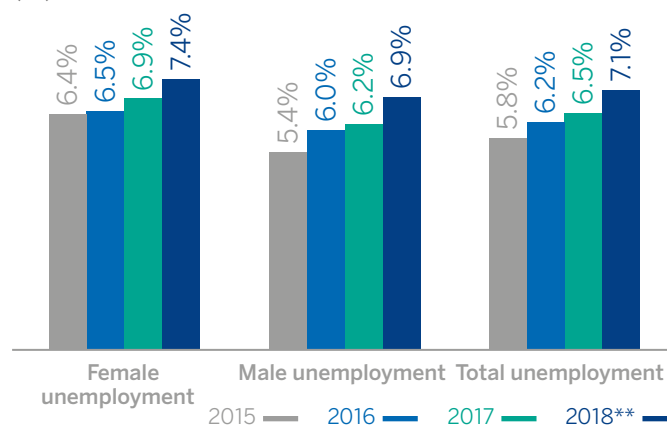
Despite good economic performance, in 2018 the unemployment rate rose by 0.6p.p. to 7.1%. This is accounted for by the 1.4% expansion in the labor force, larger than the increase in the occupied population (1.0%), putting greater pressure on the labor market.

This uptick was driven by the construction (4%), hotel & catering (6.6%) and education (3%) sectors. The main falls were noted in household-related activities such as domestic staff employers (-4.7%), public administration (-3.4%) and administrative and support services (-7.2%).

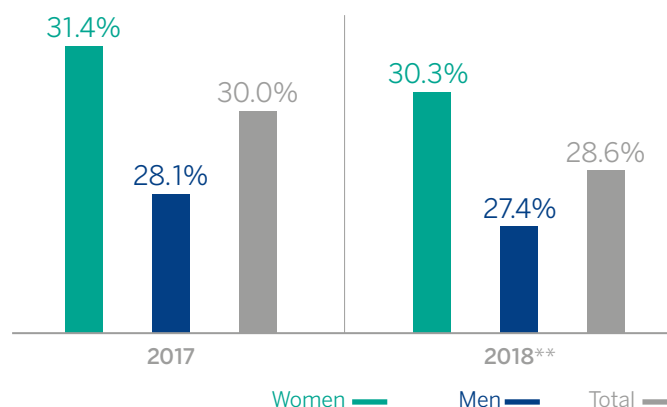
Pressure on the labor market was offset by an increase in the unemployed (bringing it up to 6.4%), around 37,140 more people than before. However, the proportion of those working part-time but who would like to work more, the under-employed, is 16.7%, down by 0.3 percentage points.

The participation and occupation rates fell by 0.2 and 0.5p.p., to 59.5% and 55.2%, respectively. The rate of unoccupied women posted at 7.4%, an increase of 0.5p.p. because of the 1.7% rise in the labor force, which was a shade higher than the 1.6% growth in the number of occupied women.

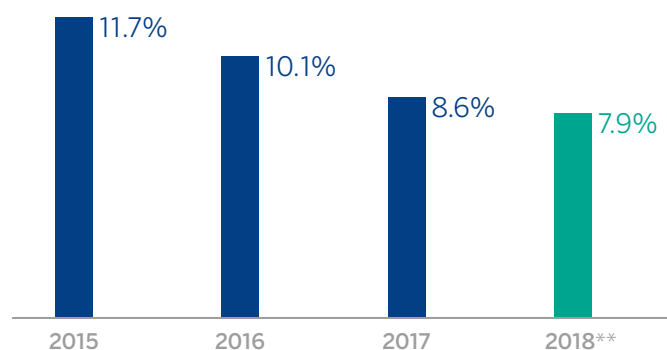
LABOR MARKET* (%)



INFORMAL SECTOR* (%)



MONETARY POVERTY* Population (%)



² Data from INE (the National Statistics Institute), the Chilean central bank and the Casen survey. Estimates by BBVAMF Research.

* INEI.
** BBVAMF Research estimate.

Macroeconomic environment

The number of unemployed women rose (by 2.7%), entirely due to the numbers of those looking for work for the first time (39.3%). Women's rates of participation and occupation stayed the same, at 48.9% and 45.3%, respectively.

The gender gap in the labor market remained stable, with men's unemployment rate at 6.9%, 0.5% lower than women's. The men's rate is 0.7p.p. higher than in 2017, the outcome of a 1.2% expansion in the workforce, which is larger than the 0.6% growth in the occupied population. The participation and employment rates were 70.4% and 65.5% respectively, revealing the significant gap –of 20.5p.p. and 20.2p.p.– with women in each case.

The rate of pressure on labor, that is, the number of occupied people looking for a job, plus the unoccupied and first-time job seekers expressed as a percentage of the work force, was 12.8%, expanding by 0.1p.p. from the year before. The rate of pressure on women rose by 0.2p.p. to 12.7%, whereas the statistic remained unchanged for men, at 12.9%.

Around 28.6% of jobs were in the informal economy, but the biggest growth in economic activity, even though it did not pass through to more employment, did bring about a reduction of 1.4p.p. in the occupancy rate in the informal sector. For men, the rate was 27.4%, while for women it was 30.3%.

The number of those occupied in the informal sector fell, principally among men (-2.4%) and, by age, in the 35–44 age group (-9.7%). By sector, the contraction of those occupied in the informal sector was mainly in the construction sector (-4.7%) and the manufacturing industry (-5.1%).

Poverty measured by income stood at 7.9% in 2018, according to the latest available Casen survey, a fall of 0.7p.p. from 2017 when it came to 8.6%. This puts the country's poverty levels among the lowest in the region.

Behind this percentage are 102,690 people in Chile who climbed out of poverty last year; there are still 1,481,361 people in poverty, of whom 393,779 are in extreme poverty, making up 2.1% of the population.

In 2006 income poverty in Chile affected 29.1% of the population, which means that over the last 12 years, around 3,275,875 Chileans have escaped it. However, even though income distribution has improved, as seen in the fall in the Gini ratio over the period, inequality has increased recently. The latest official survey showed that the incomes of the richest 10% are 39.1 times higher than those of the poorest 10%. In 2015 the multiple was just under 34 times.

FINANCIAL INCLUSION

According to the World Bank³, in Chile 74.3% of adults are banked, making it the country with the highest financial inclusion in the region. 67% of the adults in the poorest 40% of households are banked, compared to 79% of adults in the richest 60%, showing an inclusion gap by income differentiation of 12 percentage points, one of the smallest in the region.

71% of adult women are included in the financial system, representing a gender gap of 6.5p.p., in comparison with 77.8% of included adult men. The biggest gap (25.3p.p.) is between adults who are in the work force and those who are excluded.

54% of adults with primary education at best are included in the financial system, but this figure rises to 81% for adults who have completed secondary studies or higher, which confirms that unbanked adults are more likely to have a lower educational level.

Looking at the determinants for being unbanked, 54% of the unbanked give the main reason for exclusion as being that financial services are "very expensive". 23% have issues with the documents needed, 21% say that financial institutions are too far away, while 57% of adults alleged that the main reason was insufficient funds.

49% of adults have saved money in some way in the previous 12 months, but only 21% used a financial institution. In the segment of adults with the lowest 40% of incomes, 41% have made some kind of savings, but in this segment only 14% did so through a financial institution.

³ Global Findex 2017, World Bank.

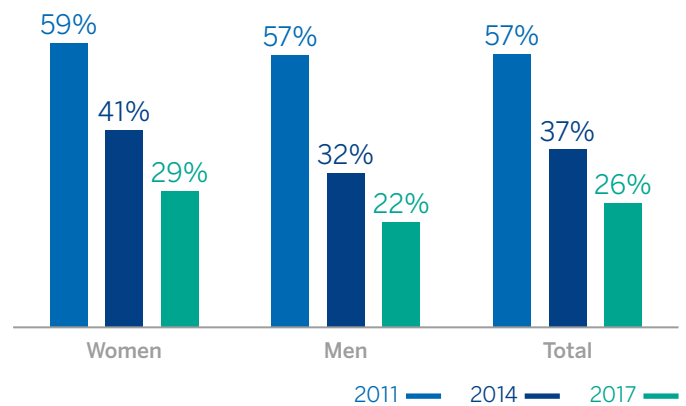
One of the purposes of savings was to begin or expand a productive activity. 17% of adults overall saved money in the previous year with this intention; while in the segment of adults with the lowest 40% of incomes it was 12%, this ratio rises to 20% in the higher income segment.

45% have received at least one loan, but only 13% have done so through a financial institution, whereas 15% have received their loan from family members or friends. For adults with lower incomes, although 38% have received a loan, only 12% have obtained it through financial institutions, whereas 15% borrowed the money from family members or friends.

According to local sources⁴, 98% of the population has a financial product of some kind. On average every Chilean has 5.3 products. One in every three adults has credit products, savings products and a checking account. 76% of the adult population has a checking account, while 69% and 52% have a savings or credit product, respectively.

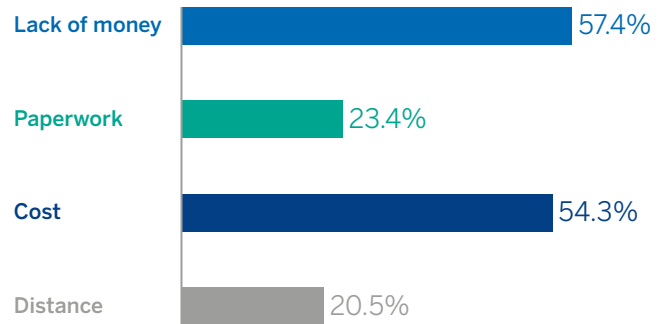
UNBANKED ADULTS*

Total over 15 years old (%)



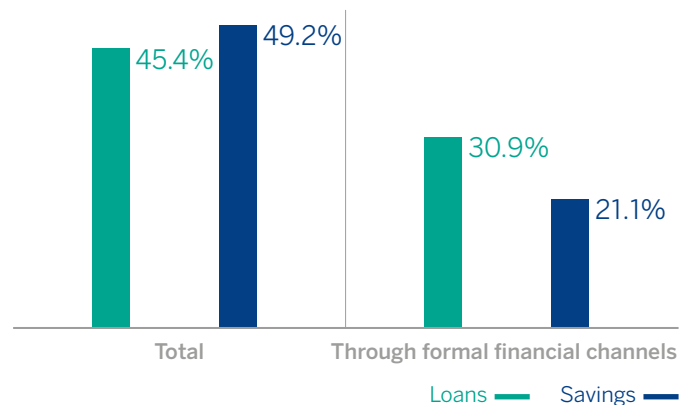
EXCLUSION FACTORS*

Excluded adults (%)



PRODUCTS IN DEMAND

Adults (%)



⁴ Source: 2016 Financial Inclusion Report. Chilean Banking & Financial Authority.

* Global Findex, World Bank.