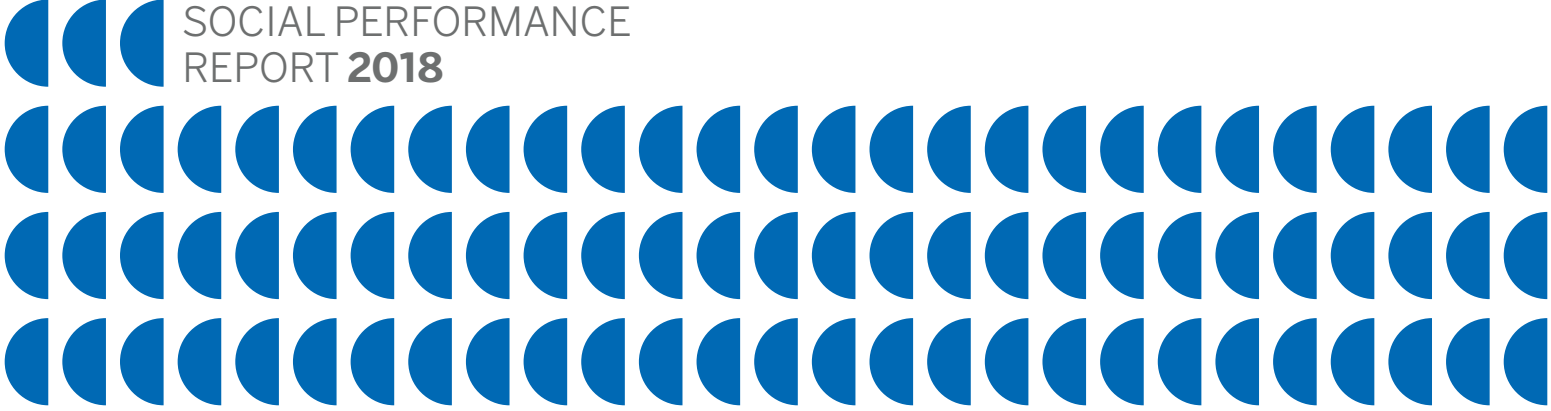


# Panama

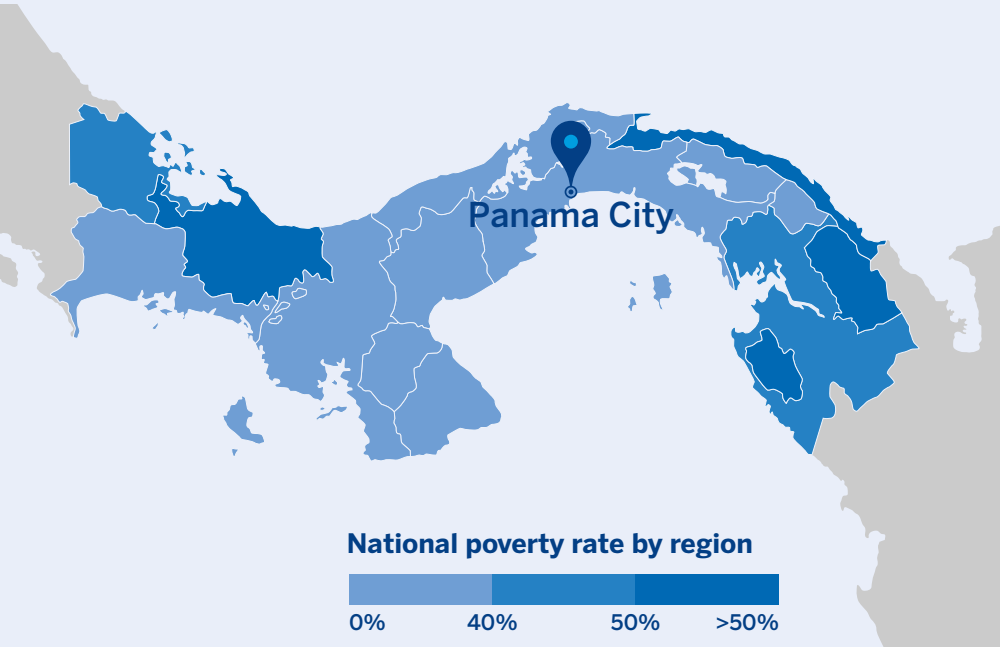
Microserfin

SOCIAL PERFORMANCE  
REPORT **2018**



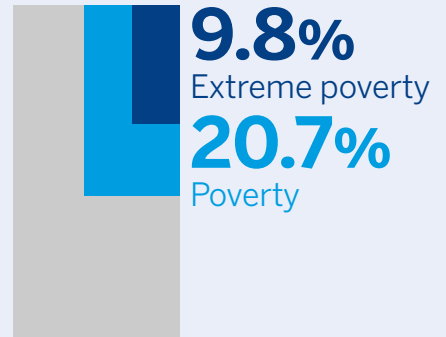
# Great entrepreneurs behind every number

## National data



### % Poor

According to the national poverty line<sup>1</sup>.



**54%**  
Unbanked adults<sup>2</sup>.

## 1. CLIENTS Committed to vulnerable people

Total credit clients<sup>3</sup>

**17,328**



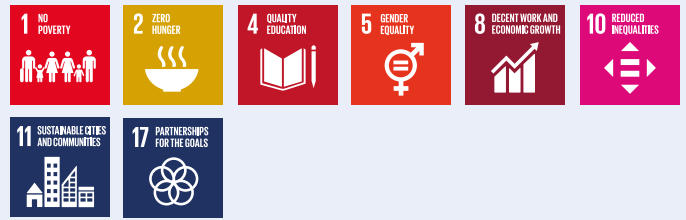
New credit clients 2018

**4,760**

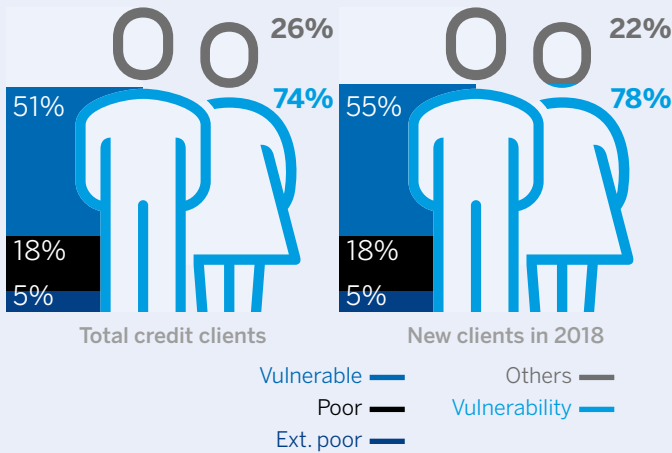


Source: Microserfin. BBVAMF calculations.

(1) National poverty rate according to the Economy and Finance Ministry, 2017. (2) Global Findex, 2017. (3) Data as of 12.31.2018.



**Economic vulnerability**  
(%)



**1 in every 2 new clients is rural, the environment in which poverty concentrates.**

## 2. PROGRESS

Working with them as they develop



Clients who were poor at the outset with at least 5 loans.



Clients who take on new employees after three years.

## 3. RELATIONSHIP

Making a differentiated set of products and financial services available to clients

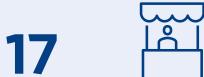
**Branch offices**



**People receiving financial education**



**Service points**



**Loan officers**



**Average disbursement**

**Total clients served in 2018:**



**New clients (first loan) served in 2018:**



## Introduction

---

In Panamá, 20% of the population is still poor and 54% of adults do not have a formal bank account. By financing productive activities, Microserfin, Panamá's leading microfinance institution, is committed to mentoring these entrepreneurs along their journey.

In 2018 the Panamanian economy grew by 3.7%, one of the biggest activity hikes in the region. Lower growth compared to the previous year (5.4%), is due mainly to the effects of construction workers' month-long strike during the second quarter.

Panama has the lowest inflation in the region, closing 2018 at 0.2%, slightly lower than the 0.9% recorded in 2017, a result of the supply shocks that triggered rises in food and fuel prices. This situation was reversed in the second half thanks to the fall in the oil price.

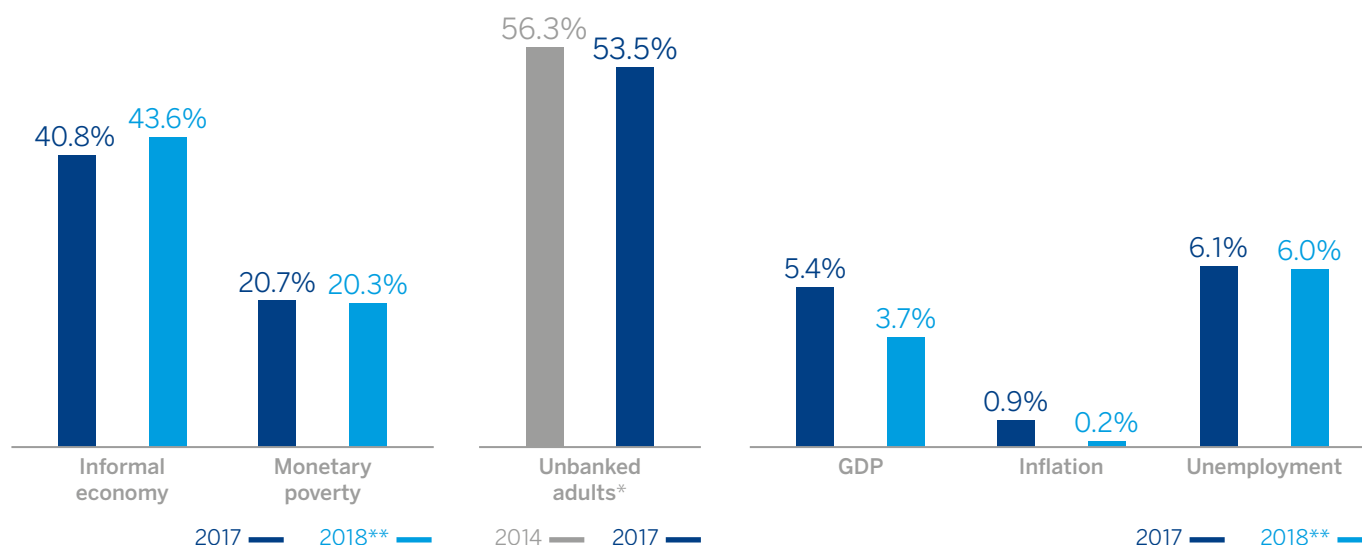
The unemployment rate came to 6%. Of those in work, 43.6% do so in the informal economy. By gender, female unemployment (7.6%) is 2.8 percentage points above that of men (4.8%), with a higher percentage of women working in the informal economy than men (44.5% vs. 42.9% respectively).

*Panama has reduced its unemployment rate to 6%. Women are more likely to be unemployed or working in the informal economy.*

46% of adults have a bank account. 42% of adult women are part of the financial system, as against 51% of men, making a 9 percentage-point gender gap. 48% of adults have saved some money in the last year, whereas 31% have received a loan of some sort.

For two decades, Soluciones de Microfinanzas S.A. (Microserfin) has built a significant track record in the microfinance environment, making it the first Panamanian institution to lead financial inclusion for small business owners using Productive Finance with relationship banking. This methodology puts the client at the center of our activity, encouraging sustainable development through the generation of surpluses over time, and decision making that helps them consolidate their improvements.

Microserfin is present in most of the country's poorest districts, serving clients in the provinces of Bocas del Toro, Coclé and Chiriquí. Since Panama is one of the most unequal countries in the region (after Guatemala and Colombia), reaching out to rural areas and indigenous districts is particularly important. In fact, the institution has specialized in these rural areas, where living standards are lower. There, among others, it serves agricultural entrepreneurs with personalized advice given by its loan officers.



Microserfin has been working with the Micro, Small & Medium-sized Enterprise Authority (AMPYME) since 2016 in a public-private partnership to push forward a national pact stimulating entrepreneurship. It has set up a working plan for the enterprise ecosystem with the vision of consolidating and institutionalizing its efforts by 2019.

*Microserfin is working to reach rural areas and indigenous provinces to open up opportunities and reduce inequality.*

## KEY VOLUMES<sup>1</sup>

Total clients	<b>17,328</b>
Number of employees	<b>274</b>
Number of branches	<b>13</b>
Gross portfolio (USD)	<b>27,508,472</b>
People receiving financial education	<b>6,542</b>
Amount disbursed in 2018 (USD)	<b>19,535,498</b>
Number of disbursements in 2018	<b>12,590</b>
Average disbursement in 2018 (USD)	<b>1,552</b>

Source: National Statistics & Census Institute (INEC), Ministry of Economy & Finance.

\* Global Findex World Bank, 2014 & 2017.

\*\* BBVAMF Research estimate.

<sup>1</sup> USD/PAB: 1, a 12.31.2018, BBVA Research.

## Introduction

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Microserfin mentors low-income entrepreneurs in order to raise their standard of living and that of their families, encouraging partnerships that are designed to help them go further. It is firmly committed to serving clients in the areas with the greatest inequality, promoting sustainable development throughout the country.

Microentrepreneurs look for financing alternatives to make their businesses grow and to provide a better future for their families. These credit clients have average surpluses (benefits) per household member (per capita) of USD 314 a month, roughly equivalent to 4.4 times the basic food basket.

Those entrepreneurs whose businesses do not give them enough income to buy this basic food basket are classified as extremely poor. Those who can afford the basic basket, but cannot pay for certain goods and services, clothing and housing, are considered monetarily poor. The price of this final set of goods determines the poverty line. In the case of Panama, it is USD 108 in rural areas and USD 145 in urban areas<sup>2</sup>.

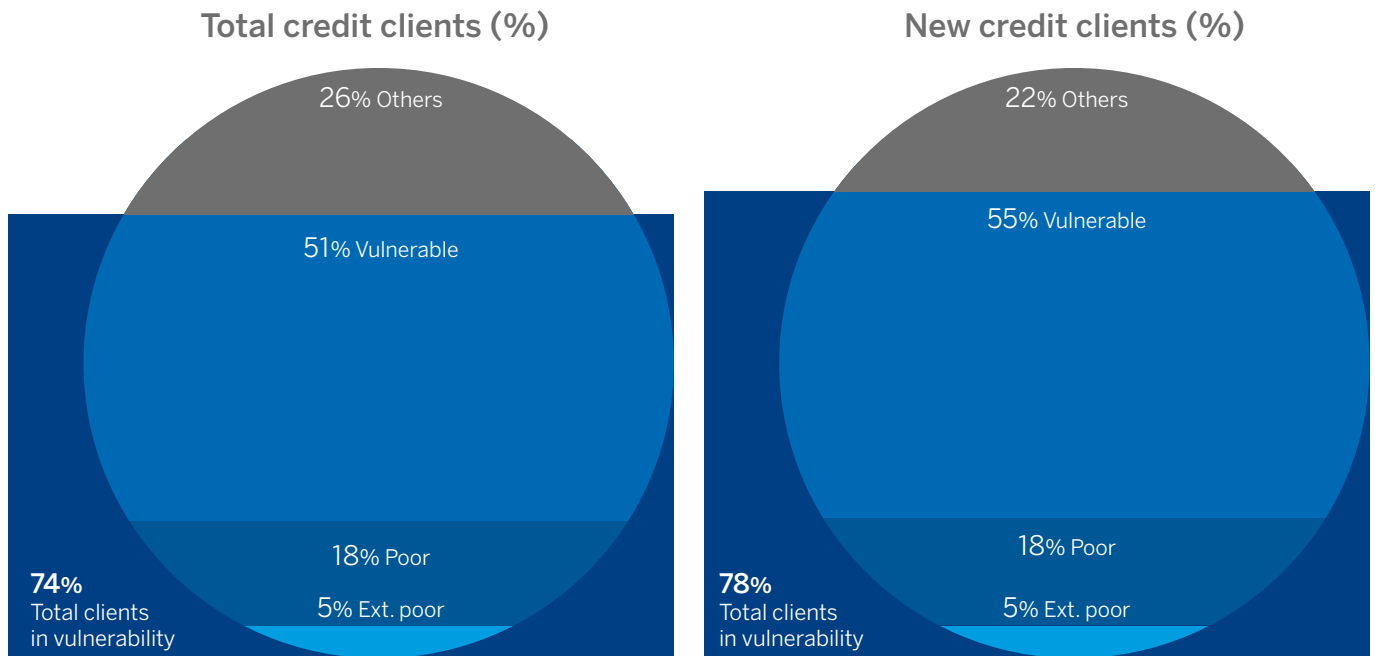
### PRICE OF THE BASIC FOOD BASKET



Nevertheless, the category with the highest percentage of clients is made up of vulnerable people. These are entrepreneurs who, while not poor, have very volatile incomes, for whom a setback may cause them to fall back into poverty. The threshold for this classification is an income equal to the country's poverty line multiplied by three. 51% of credit clients fall within this category.

<sup>2</sup> 2017 poverty line published by the Economy & Finance Ministry, updated using end-of-year CPI figure.

## CLIENT ECONOMIC VULNERABILITY\*



In 2018, Microserfin served 4,760 new credit clients, 78% of them in vulnerability; of these, 23% had per capita incomes below the poverty line.

The effort to reach entrepreneurs who are excluded from the system has led the institution to reach out to rural areas and people with low levels of formal education, to offer them personalized advice and the opportunity to access funding that is easy to understand and close to hand.

*78% of new clients served by Microserfin in 2018 are in vulnerability. 1 in 2 are in rural areas.*

Over this year, Microserfin has made a big push forward in technology, with new core banking, which will give it more flexibility in adapting to clients' needs and giving them a better service.

Depending on the product type and client segment, the appropriate credit technology needs to be onboarded in order to develop and implement specialized operating processes and management systems in the microfinance portfolio.

\* 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 net business income 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

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## SOCIOECONOMIC PROFILE

Microserfin works to provide financial opportunities to clients with productive activities who are excluded from the banking system. Of the nearly 5,000 new clients served, 78% are in monetary vulnerability, 6 percentage points above the proportion of clients in vulnerability served in 2017. This shows the effort of the entity to expand its depth (clients with lower net per capita income).

The average income of poor clients represents 77% of the poverty line, leaving them with USD 103 a month to live on. In other words, 18% of clients served during 2018 had incomes of just USD 3.4 a day for each member of the household, and 5% (the extremely poor) generated net income of USD 1.6 a day per household member.

In terms of reach, 49% of clients served in 2018 conducted their activity in rural environments. Nevertheless, rapid urbanization has led to an increasing concentration of poor people in cities. Of clients served in urban areas in 2018, 84% are in vulnerability.

Another relevant factor is their level of education. Just 38% of the population with primary education at best has an account in a financial institution<sup>3</sup>. In fact, in the case of Microserfin clients, urban clients with little formal education (primary at best) are those with the greatest degree of vulnerability (89% of them).

The gender gap is also apparent among Microserfin clients, particularly when one looks at households' final disposable income. Business financial volumes show similarities in terms of sales –women receiving financing in 2018 for the first time have average sales of USD 1,551 compared to men's USD 1,597, making the gap just 3%–, but this widens when we look at business margins reaching 15% in the case of per capita surplus for each household member.

*Urban clients without secondary or higher education have higher levels of vulnerability: 89% are in this category.*

**(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.

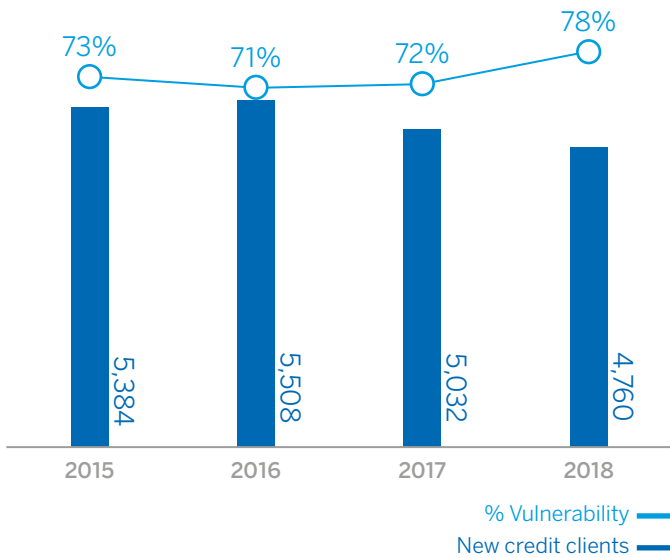
<sup>3</sup> Global Findex World Bank, 2017.

**(2)** According to the country's official poverty line. New clients (no previous loans) signed up over the year.

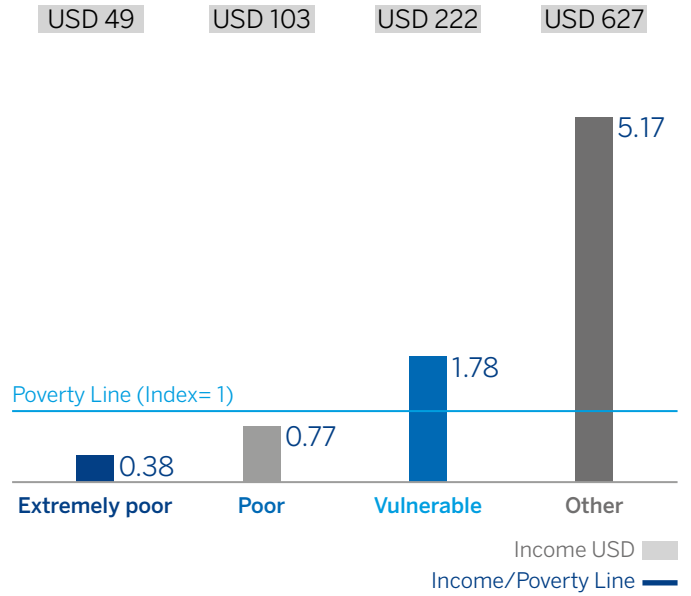
**(4)** New clients in the year (without previous credits). Vulnerability is the percentage of clients with incomes less than 3 multiples of the country's official poverty line.



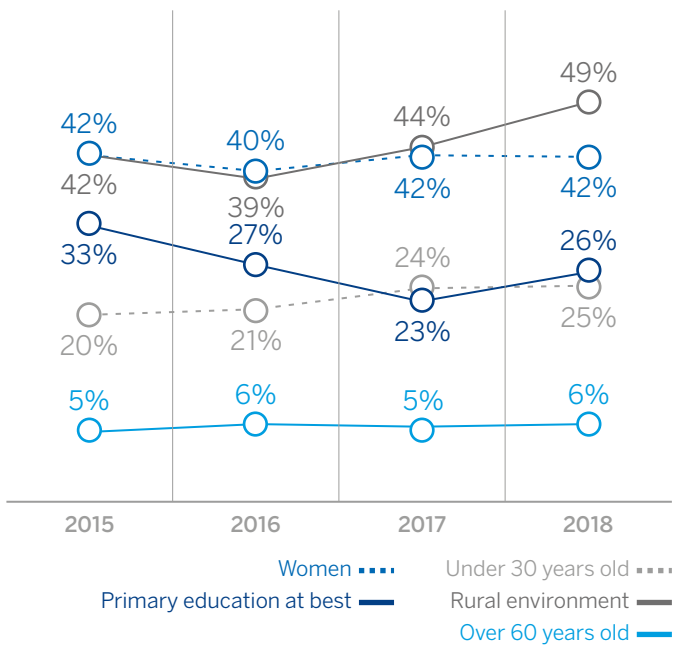
**1 NEW ENTREPRENEURS SERVED**  
New credit clients by cohort



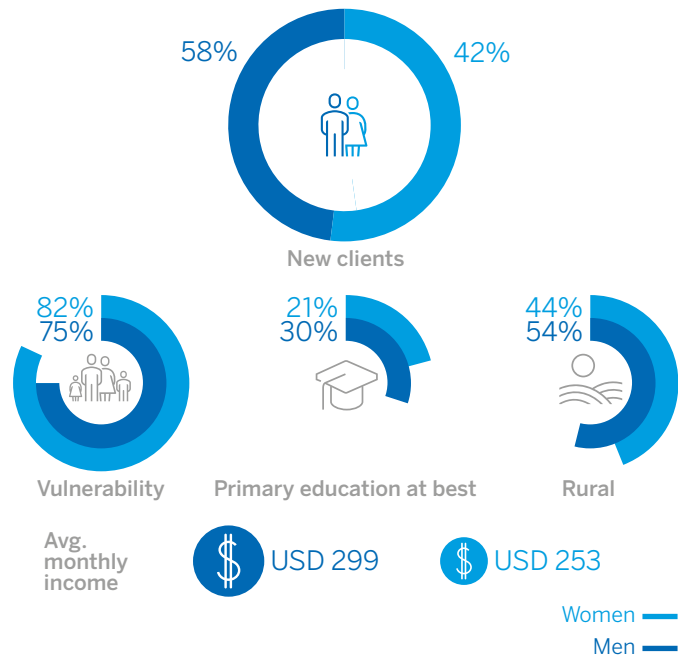
**2 ENTREPRENEURS' INCOME**  
Income against Poverty Line



**3 NEW CLIENT PROFILES**  
New clients by cohort (%)



**4 PROFILE BY GENDER**  
New credit clients (%)



## 1. Our clients

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### PROFILE OF THEIR BUSINESSES

Because of its strategy of serving clients in rural areas, Microserfin focuses to a large degree on the agricultural sector (36% of the total). These entrepreneurs have lower average sales than other sectors, in the case of both poor and non-poor clients. Their expenditure is also lower than in other sectors, so a higher percentage of these sales passes through as surplus: 44% of sales is net income, compared to retail trade businesses, where the percentage falls to 30%.

At lower degrees of vulnerability there are bigger sales and economies of scale and, as such, greater efficiency. Thus, clients in extreme poverty have net incomes as a proportion of sales of 24%, compared to vulnerable clients, who achieve surpluses of 41%.

The poorest clients seek out small-scale activities which require little technical know-how and allow them to generate liquidity fast such as, for example, relatively simple businesses in the farming sector (cereal crops) or retail trade (food and beverages sales).

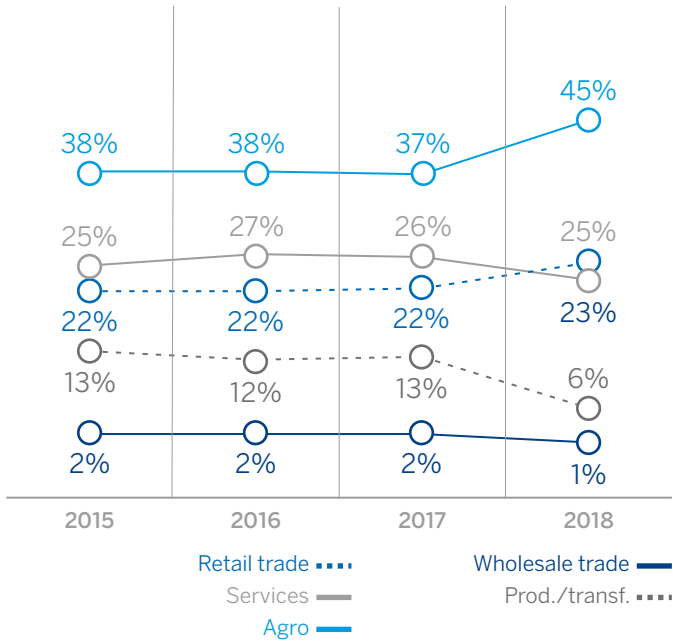
We also see that in the case of Microserfin clients, men and women choose different businesses. Women tend to set up enterprises in retail trade or services (taken together, 59% of them work in these types of activities), while men mainly work in agricultural activities (45%).

Women have higher educational levels, but their difficulties in accessing the job market are greater (there are higher rates of unemployment, more informal employment, etc.). Becoming an entrepreneur and access to finance are a great opportunity for reducing these gaps.

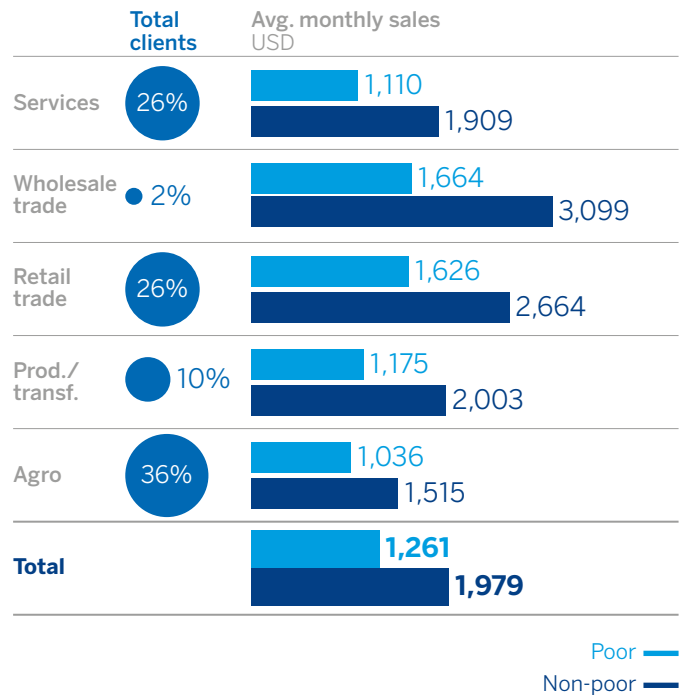
**(6)** Data on average monthly sales in each sector, segmented by clients below the poverty line (PL: extremely poor and poor) and clients above the PL (vulnerable and others).

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

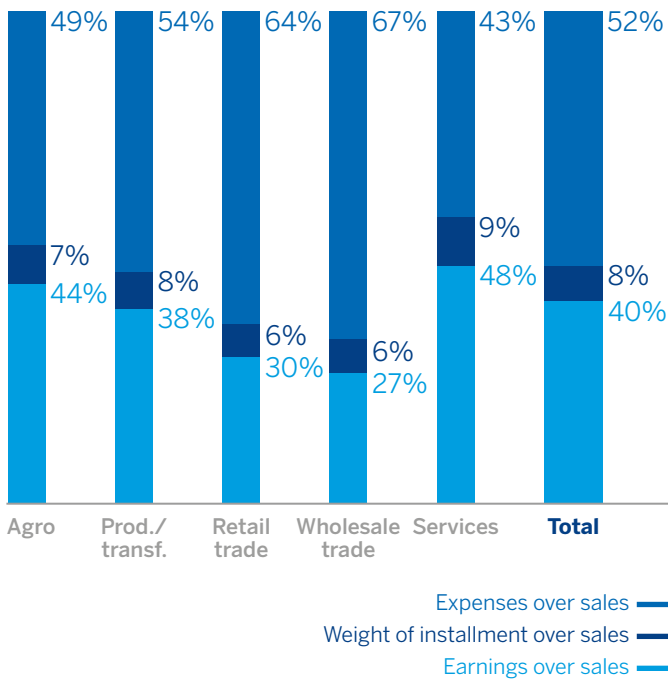
**5 ACTIVITY SECTOR**  
New clients by cohort (%)



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



**7 P&L- MARGINS OVER SALES**  
Total credit clients



## 2. Our clients' development

### GROWTH OF THEIR BUSINESSES

The longer clients have been banking with the institution, the more we see sustained growth in their business surpluses. Thus, their household contribution (per capita net income) has a stable correlation with the national poverty line (PL).

Clients' incomes grow with each successive loan they take out. When they sign up for their first credit, in extreme poverty, their relative income ratio is 0.37 (that is, 37% of the PL), so their business income needs to triple if it is to get over the poverty threshold.

Vulnerability is characterized by volatility, or the possibility that there may be unexpected reductions or drops in income that once again endanger the standards of living achieved, altering the household's financial status.

When we analyze clients who have taken out fewer than five loans with the institution, and who were in poverty at the outset, we see that more than one in three has overcome it (37%). Nevertheless, some fall back into poverty (23% of the total). Non-poor clients also suffer volatility, although less so than in the previous category, at a rate of 11%.

*It is critically important to carry on supporting our entrepreneurs as they accumulate assets, thus reducing their volatility and improving their performance.*

As is also the case in the BBVAMFG, some studies suggest<sup>4</sup> that the loans granted to accumulate assets are concentrated in the formal financial sector. Asset accumulation leads to wealth creation<sup>5</sup>. As a result, it is critically important to support these entrepreneurs wanting to accumulate assets in order to reduce economic inequality.

**(8)** For the sample of clients served between 2011 and 12.31.2018 –classified according to their situation when they took out their first loan– per capita earnings (income) at each credit cycle are shown, relative to the country's poverty line (current in the year of the disbursement). Relative income has a value of 1 when it is the same as the poverty line figure.

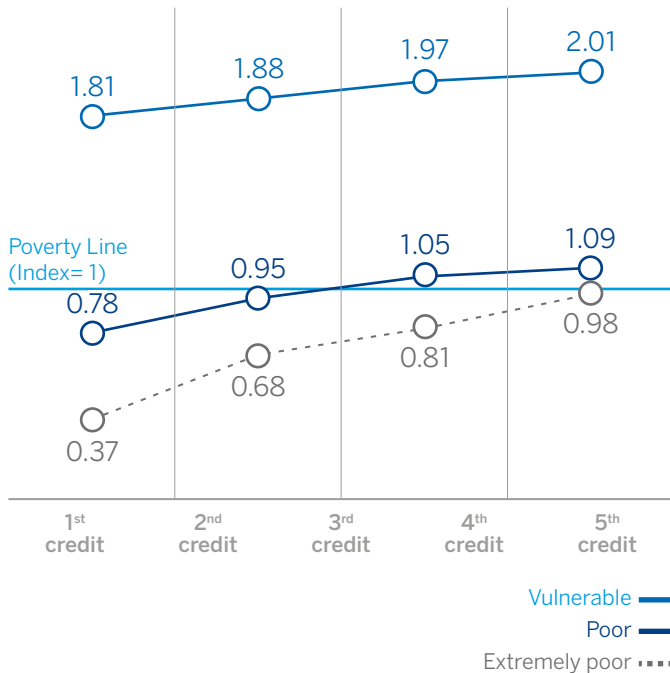
**(9)** Sample of clients served between 2011 and 12.31.2018 who have had at least five disbursements. The number of times a client crosses the PL is analyzed. Volatile: Clients whose incomes fluctuate across the PL more than once.

- 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.

<sup>4</sup> Deere & Catanzarite (2017) "Who receives loans to accumulate assets?", ECLAC journal, N° 122 Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>5</sup> Figueroa, A. (2011), "Income inequality and credit markets", ECLAC journal, N° 105.

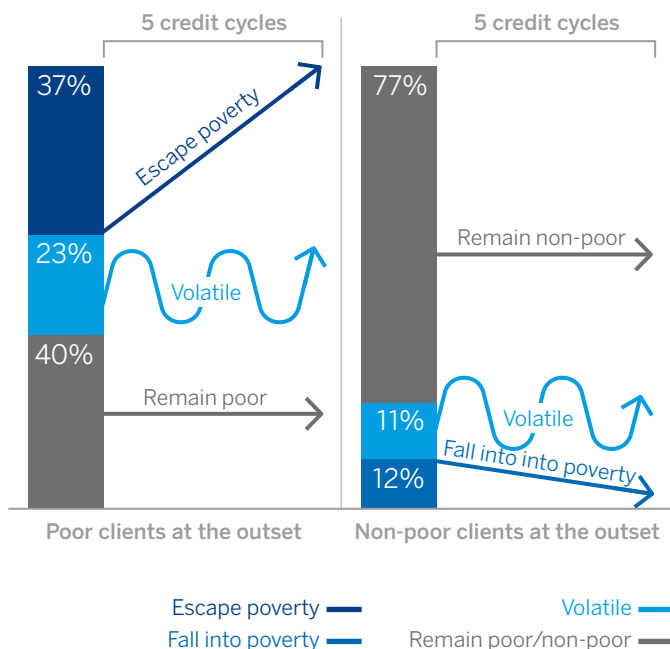
**8 GROWTH IN INCOME**  
Income of segment over Poverty Line



**The longer clients bank with us, the better their business performance.**

Staying with our clients as they take out successive loans helps them to manage their finances better and to reduce their income volatility.

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



## 2. Our clients' development

### INDIRECT IMPACT

Microenterprises are generally an important part of all countries' economies. According to data from INEC, the national statistics body, 27% of the active population is self-employed, is an employer (ie. with at least one employee) or works within the family unit. 27% of the clients served by Microserfin generate at least one additional job, while the remaining 73% have a microenterprise in a self-employed capacity.

As clients become less vulnerable, they are capable of generating more jobs and of having a positive impact on the communities where they develop their activity. After five years, 7% of clients have succeeded in generating more employment.

One of the key points in entrepreneurship lies in transferring business improvements so that they impact on entrepreneurs' families and their standard of living. We now have measurements on housing that demonstrate how, in the fourth year, 3% of clients have managed to improve their housing status and, as such, make tangible improvements to their situation.

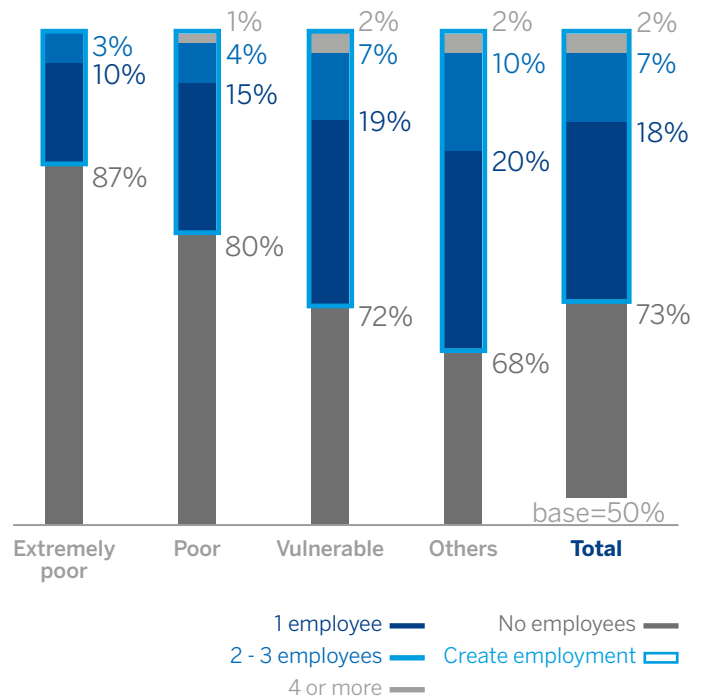
The Government of Panama has been publishing data since 2017 on multidimensional poverty, which measures the population's deprivations in the areas of education, employment, housing and healthcare. In 2018 this indicator stood at 19%, 0.1 percentage points better than the 2017 measurement. The institution's Casafin product is highly instrumental in supporting this client improvement.

(10) Considers the number of employees in current clients' business at 12.31.2018.

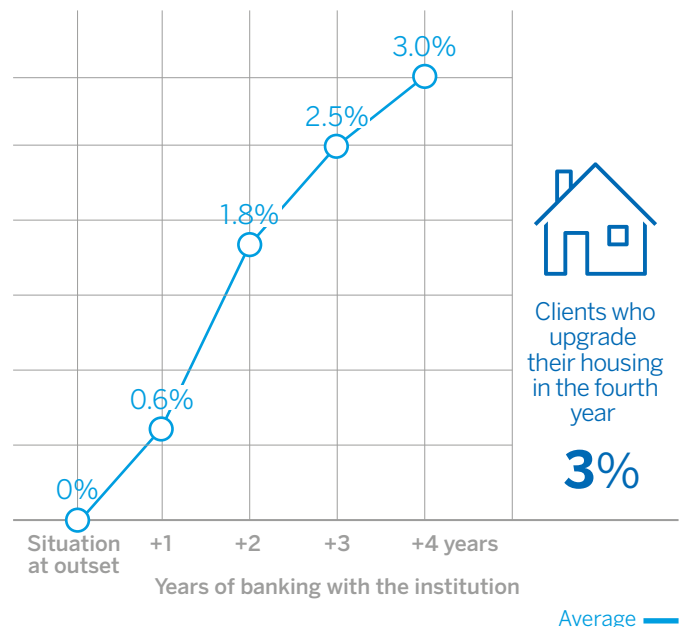
(11) Considers the increase in the number of employees compared to the outset, in the businesses of clients current at 12.31.2018. Averages for the 2013–2018 cohorts (year of entry).

(12) Proportion of clients current at 12.31.2018 of each cohort, who have improved their housing situation (bought their own home). Average for 2013–2018 cohorts (year of entry).

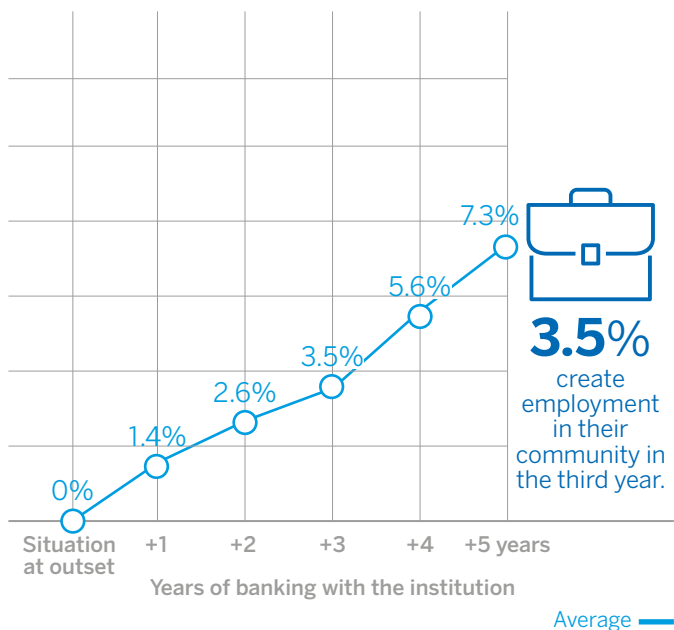
**10 EMPLOYEE BREAKDOWN**  
Clients according to n° of employees in their business



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



**11** **JOB CREATION**  
Credit clients who hire more employees (%)



**19% of Panamanians are in multidimensional poverty. This indicator takes into account issues such as access to education, health, housing and employment<sup>6</sup>.**

<sup>6</sup> Economy & Finance Ministry, 2017.

### 3. Relationships with clients

#### RELATIONSHIP WITH OUR CREDIT CLIENTS

In order to reach the entrepreneurs with the least opportunities who are excluded from the system, Microserfin needs a network that gives it capillarity throughout the length and breadth of the country. For this reason, it has 105 loan officers, 13 branch offices and 17 express offices.

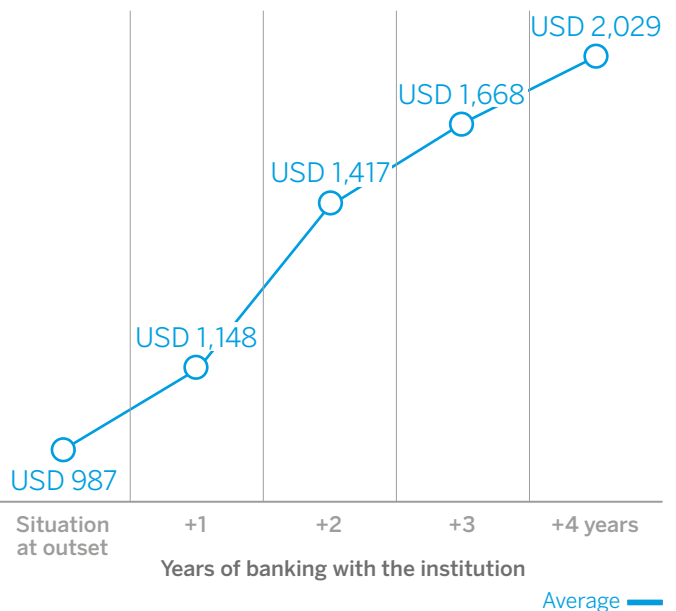
Long-term relationships between the institution and its clients enable us to track greater growth in their businesses, as well as access to higher sums in their financing. In 2018, the average disbursement for the first credit was USD 1,259, i.e. 18 multiples of the basic food basket. Given the level of client sales and the average loan term, this works out as a repayment installment of 7% of sales.

The longer clients remain with the institution, and as their credit history becomes more detailed, they can access bigger loans to give more momentum to their business. On their second loan the disbursement sum is 16% higher. The figures show that 52% of clients access a second loan.

Microserfin faces many challenges. It must consolidate its position and improve its services using ICT systems that generate relevant information that in turn enable its clients to take optimal financial decisions.



**14** GROWTH OF AVERAGE DISBURSEMENT  
Change, by duration of relationship



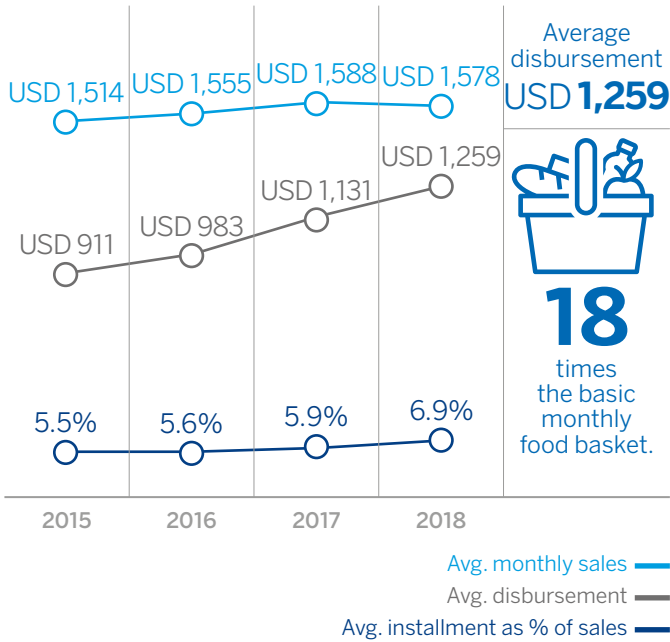
**(13)** New clients. Average disbursement, calculated as the average first disbursement for new clients each year. Weight of the installment calculated as each client's average ratio (loan installment payment over sales).

**(14)** 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.

**(15)** 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).



**13 SALES, DISBURSEMENT AND WEIGHT IN INSTALLMENT**  
New clients by year of entry



*“We are simple farmers, sowing seeds of faith on an uncertain path of events, shared experiences and dreams of our Latin American land.”*

**Rubén Blades**  
Singer-songwriter

**15 RETENTION & RECURRENCE**  
Of credit clients

Clients with performing credit after x years

	Situation at outset	+1	+2	+3	+4
<b>Retention</b>	100%	72%	42%	33%	26%

Clients with a 2<sup>nd</sup>, 3<sup>rd</sup>... credit

	1 <sup>st</sup> credit	2 <sup>nd</sup> credit	3 <sup>rd</sup> credit	4 <sup>th</sup> credit	5 <sup>th</sup> credit
<b>Recurrence</b>	100%	52%	33%	22%	15%
<b>Distance (days)</b>	–	406	417	405	385

## Partnerships to reach those who need it most



**Dayana Babilona**  
Microserfin loan officer

*“When my clients hear about Microserfin and its determination to include them in the country’s economic activity, they put their trust, and even their dreams, in the institution. They are entrepreneurs who are committed to giving back something positive to the country and grateful that they have been able to grow in Panama”.*

Dayana remembers her client Juan Manuel Hincapié, originally from Colombia, who came to Panama 7 years ago as a refugee. He couldn’t get a job in the formal economy, so he decided to set up on his own, with a small cart selling the traditional rice drink “chicha” and food prepared by his wife, with a motorized service to transport them.

A client of Microserfin since 2014, he has always felt supported by them as he keeps his company moving and helps his family back in Colombia. Now he is a courier for insurance companies and sells all sorts of merchandise: perfumes, clothes, telephones, among others.

**To provide access to banking services to refugees so that they can develop their enterprises and integrate into Panamanian society, solid partnerships need to be made. In 2018 the United Nations’ High Commission for Refugees (UNHCR), Red Cross Panama (RCP) and Microserfin renewed their agreement for the third time to finance enterprises led by people who have applied for refugee status in Panama.**

In 2017, the number of asylum applicants in Panama was more than 2,500, 60% up on the year before. Most of them come from Venezuela and Colombia.

UNHCR and its partners carried out a diagnosis, in which the refugees stated that one of the challenges they face in the integration process continues to be access to financial systems and the opportunities for self-employment. The Panamanian government, through the National Refugee Office (ONPAR), UNHCR and civil society, continue working to promote actions designed to raise awareness about the refugee population’s situation and access to basic services that make it easier for them to integrate into society.



**UNHCR**  
The UN Refugee Agency

### What UNHCR does

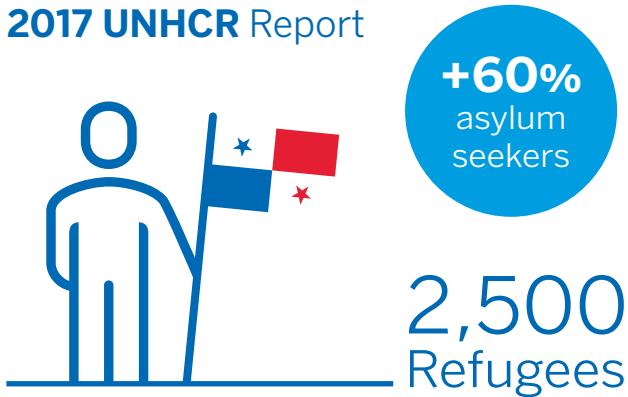
For more than 60 years, the agency has helped tens of million of people to restart their lives.

- More than **11,000 people** work for UNHCR around the world
- UNHCR works in **130 countries**
- **67.7 million people** have been served by UNHCR in 2017

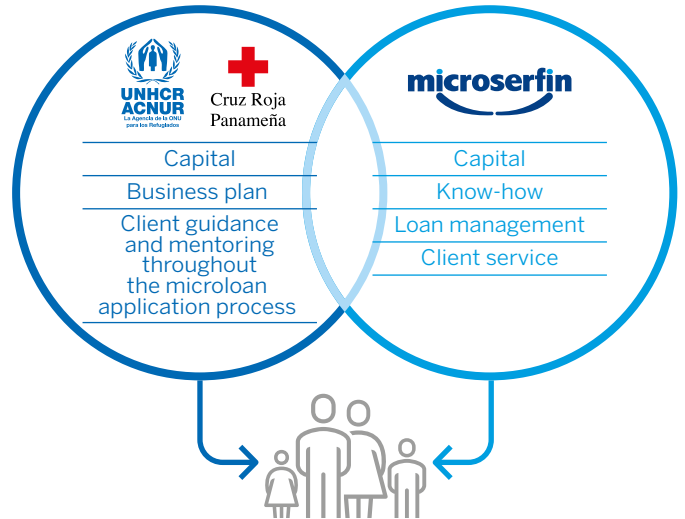
Through the Panamanian Red Cross, UNHCR helps refugees write a business plan, guides and steers them throughout the entire microloan application process and puts them in contact with Microserfin so that they can get loans.

ASYLUM APPLICATIONS

2017 UNHCR Report



3rd PARTNERSHIP AGREEMENT BETWEEN UNHCR, RCP & MICROSERFIN



How to integrate them?

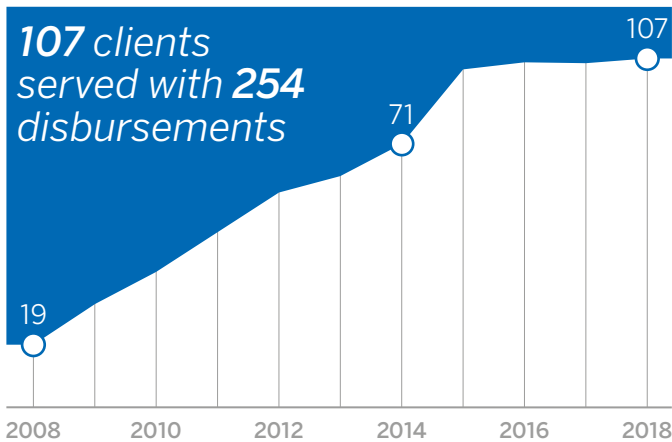
Helping them with their enterprises, making their access to financial resources smoother.



- Access for asylum seekers to financial resources for their enterprises
- Economic and social integration for refugees' families

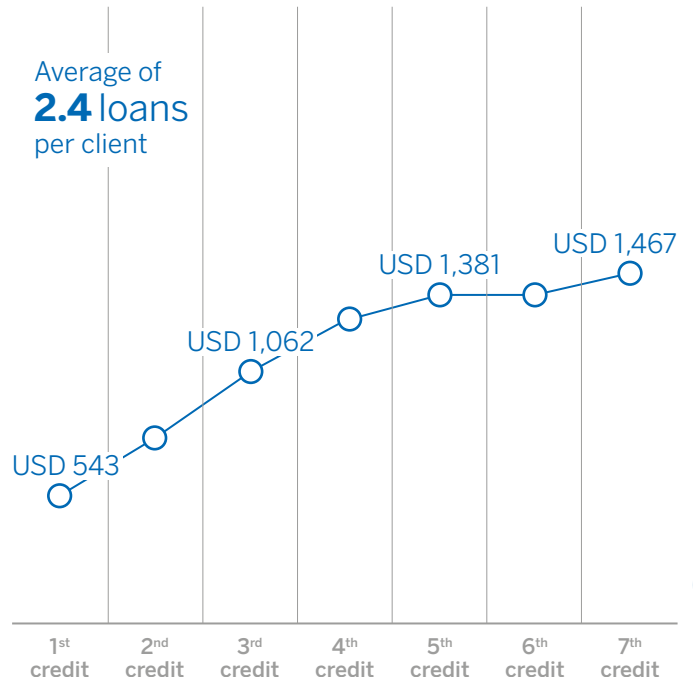
CLIENTS SERVED

Nº of clients



AVERAGE DISBURSEMENT PER CREDIT CYCLE

Total disbursements USD 202,950



SECTORS IN WHICH THEY SET UP BUSINESSES



# Macroeconomic environment

## ECONOMY<sup>1</sup>

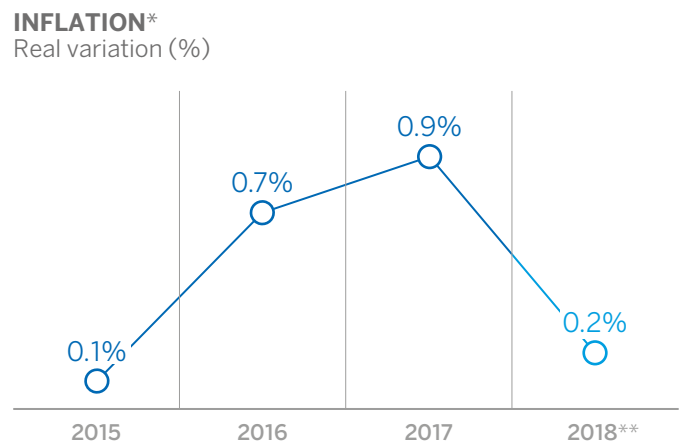
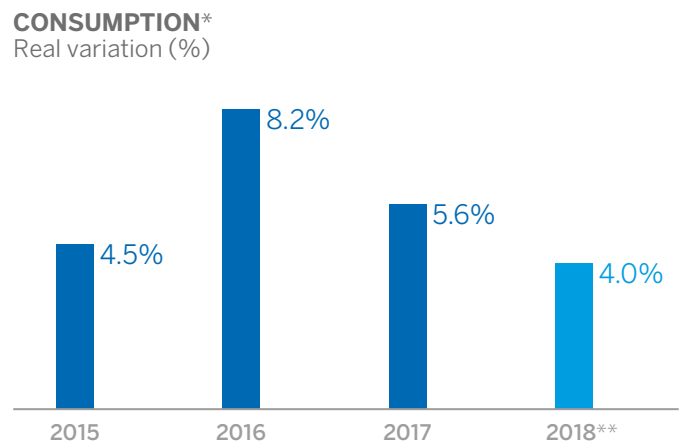
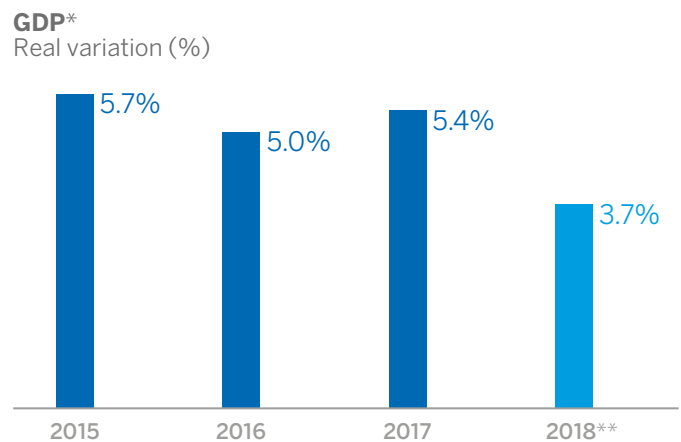
The Panamanian economy grew by 3.7% in 2018, making it one of the countries with the biggest increases in activity in the region. Growth was lower than the year before (having posted at 5.4% in 2017), mainly because of diminished activity in mining and quarrying and, in the construction sector, to the reduction in the area under construction and the effects of a long workers' strike in the second quarter of 2018.

Turning to events in the construction sector, real estate activities were impacted by the reduction in the area under construction and because of the need to register properties in the Public Registry, which translated into lower growth compared to the previous year.

The strike by construction workers –from April 18 to May 18–, had a direct effect on private-sector projects and on business owners' willingness to invest, as well as on some public-sector projects. However, investment in public infrastructure projects enabled the sector to stay in positive growth.

In addition to the problems arising from the stoppage, throughout the year there has been a lack of coordination at several levels of government and state bodies, which has also impacted on economic momentum.

During the quarter the strike took place, GDP growth was 3.1%, with the result that the first semester posted growth of 3.5%, that is, 1.7 percentage points (p.p.) below the same period in 2017.



<sup>1</sup> All data from the National Statistics & Census Institute (INEC). Estimates to end of 2018 by BBVAMF Research.

\* National Statistics & Census Institute (INEC).  
\*\* BBVAMF Research estimate.

Activity returned to normal in the second semester and growth rose to 3.8%. The most dynamic sectors were transport, storage and communications. The causes were the increase in net tonnage going through the Panama Canal, the rise in the number of passengers transported by air and telecommunications, as well as trade, particularly the rally in wholesale trade and in the Colón Free Trade Zone.

In fact, wholesale activity in the Colón Free Trade Zone surged by 14.6%, mainly accounted for by re-exports of chemical industries products, machinery and electrical equipment.

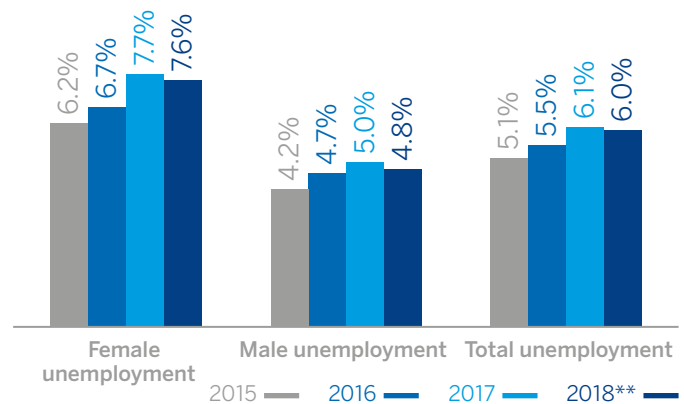
On the demand side, investment continues to be the main economic driver, within a consumption environment that is stable in real terms, bringing it to over 4% in 2018.

Inflation has remained low and steady. In 2018 it closed at 0.2%, slightly down on the 2017 result of 0.9%, although the average over the year posted at 0.8%. This is partly a result of the supply shocks, which pushed up food and fuel prices. However, these shocks were absorbed, mainly in the second semester, by the fall in oil prices, making Panama the country with the lowest inflation in the region.

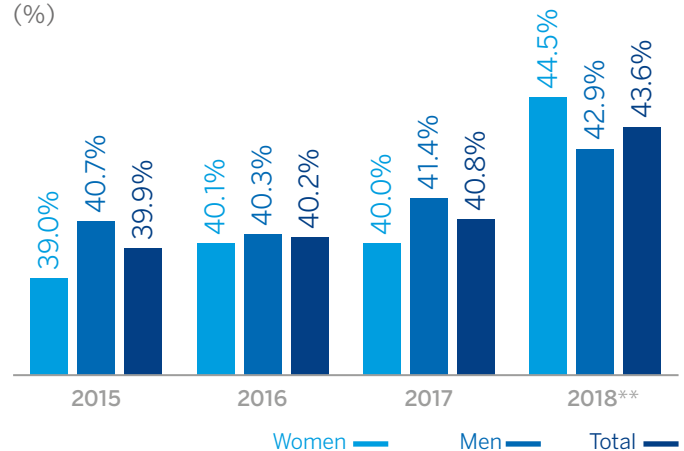
## EMPLOYMENT, POVERTY AND WELFARE<sup>2</sup>

The atypical reduction in economic activity in 2018, essentially a product of the temporary stoppage of activities because of the construction strike, was reflected in the fact that the unemployment rate fell by 0.1p.p. over the year, to 6%. By gender, the unemployment rate among men was 4.8%, whereas for women it was 7.6%.

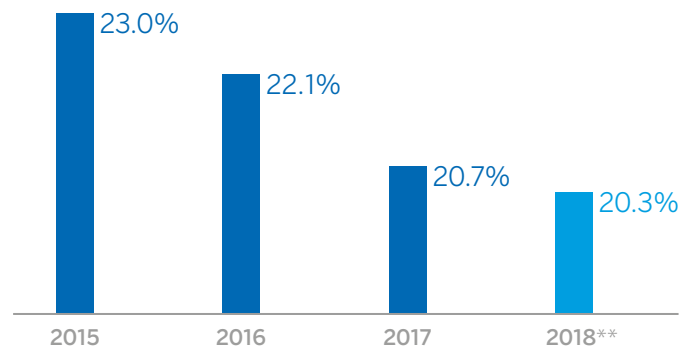
### LABOR MARKET\* (%)



### INFORMAL SECTOR\* (%)



### MONETARY POVERTY\* Population (%)



<sup>2</sup> Data from the National Statistics & Census Institute (INEC), Economy & Finance Ministry and Cepal. Estimates by BBVAMF Research.

\* National Statistics & Census Institute (INEC).  
\*\* BBVAMF Research estimate.

## Macroeconomic environment

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In the 2018 labor market, the economically active population (occupied and unoccupied) rose by 4.4% over the year before. This segment of the population increased in both the urban areas (58,041 more people), and in the rural areas (26,422 people). The national economic participation rate posted at 65.4%, an increase of 1.4p.p. from 2017.

By gender, there was a 1.2p.p. rise for men, and a 1.6p.p. rise for women, putting the participation of men and women this year at 78.8% and 52.8%, respectively, meaning the gender gap is therefore 26p.p.

43.6% of the occupied population, that is, 679,166 people, work in the informal economy, an increase of 2.8p.p. over the previous year. By sex, there was a higher proportion of women occupied in the informal economy than men (44.5% and 42.9% respectively).

Around 20.3% of the Panamanian population, about 844,233 people, are in a situation of poverty, with incomes under the monetary value of the national poverty line per person, per month. Their incomes are insufficient to buy a basket of basic foodstuffs, goods and services. In 2015 the poverty rate stood at 23%. Since then, to the end of 2018, around 70,110 people have escaped poverty. The greatest reduction has occurred in rural areas and in indigenous districts. In the latter, the percentage shrank from 79.6% in 2017 to 77.9% in 2018 (according to own estimates).

Extreme poverty was recorded at 9.7%, which means that around 403,401 people found themselves in this condition. Despite the improvements, principally an outcome of state assistance and social programs, the extreme poverty rate in indigenous communities was still 63.1%, compared to the remaining provinces where the average was 6.1%.

In 2018, the Gini ratio, which has values from between 0 (representing the absence of inequality) and 1 (maximum inequality), in Panama was calculated as 0.509, an improvement on 2016, when it was 0.513. Even so, it is still one of the most unequal countries in the region, only surpassed by Guatemala and Colombia. This lays bare an unequal level of incomes, above all in the provinces, rural areas and indigenous districts, where the standard of living drops because of the difficulties in covering basic needs and a more limited supply of public services.

### FINANCIAL INCLUSION

According to World Bank data<sup>3</sup>, 46.5% of adults in Panama are banked; this is below the average for Latin America (54.4%) and for countries with similar per capita incomes (73.1%), making it one of the countries in the region with low financial inclusion.

The gap between rich and poor has not narrowed since 2011. Possession of an account is 23 percentage points higher among adults living in one of the richest 60% of households in the country than among those living in the poorest 40%. In 2011 this figure was 11p.p., so it has doubled in the last seven years.

42% of adult women are included in the financial system, creating a gender gap of 9p.p., given that 51% of adult men are included. Women are still lagging behind men and as financial inclusion becomes more widespread, this gap widens. In 2011, it was only 3.2p.p., a third of the current figure.

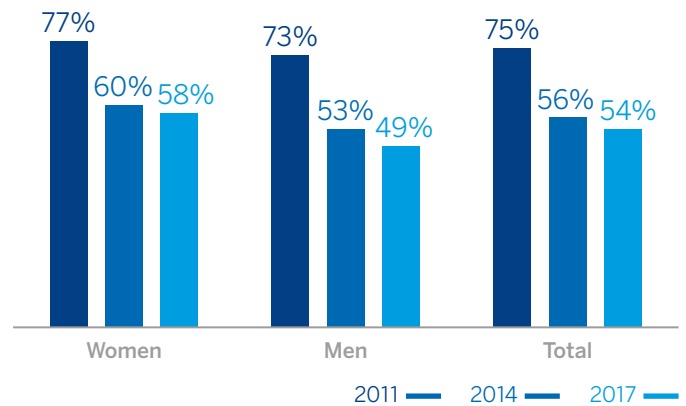
<sup>3</sup> Global Findex 2017, World Bank.

Actively working people are less likely to be unbanked. Whereas 35% of all adults in Panama are outside the workforce, among unbanked adults the percentage rises to 40%. And among the unbanked, women are more likely than men to be outside the workforce.

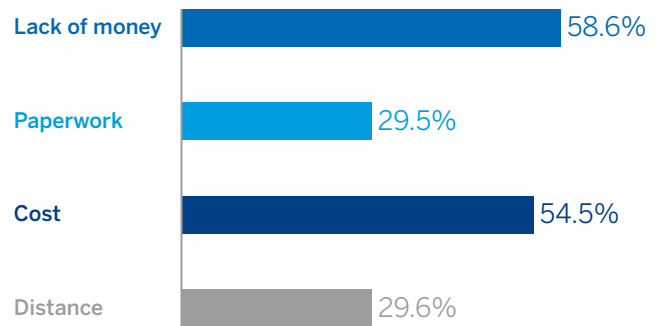
Looking at the factors that determine the condition of being unbanked, 55% cite as the main reason for exclusion that financial services are “very expensive”. 30% have problems with the documents required to open an account, 30% of adults state that the financial institutions are too far away, while 59% indicated that the main reason is lack of funds.

48% of adults have saved money in the last year, of whom 14% did so through a financial institution. 30%, meanwhile, have received a loan, but only 13% have been granted it by a financial institution, a fall of 4.2p.p. in the use of financial institutions compared to 2014. 10% use family members and friends to finance their activities or needs.

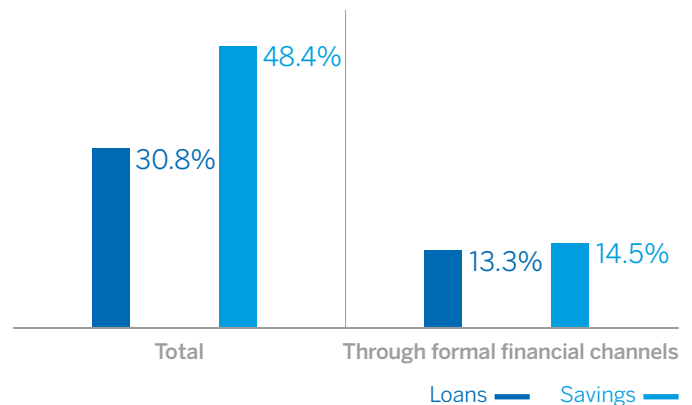
**UNBANKED ADULTS\***  
Total over 15 years old (%)



**EXCLUSION FACTORS\***  
Excluded adults (%)



**PRODUCTS IN DEMAND**  
Adults (%)



\* Global Findex, World Bank.