



# Our response to COVID-19

BBVA Microfinance Foundation and its institutions have worked swiftly and responsibly to adopt measures that enable them to stay by the side of the 2.6 million plus entrepreneurs, and their 7,609 employees during the COVID-19 crisis. As an institution that has been built on the principle of supporting the most vulnerable, the BBVA Microfinance Foundation (BBVAMF) is committed to supporting local communities and to helping them to respond to this situation of uncertainty.

Mobility restrictions and the paralysis of the economy in the first half of 2020 forced microfinance institutions to push through action guaranteeing the health of their workers and the continuity of their businesses. In turn, their scope of action was extended to ensure the welfare of entrepreneurs and their communities, making a fast transition to solutions that mitigated the impact on the socio/economic development already achieved.

BBVAMF is not shielded from crises, and these solutions are based on existing in-country processes and programs which have been reinforced where necessary, working together with governmental bodies and national response mechanisms, together with the private sector.

Making the most of the installed capacity, prior operating skills and existing relationships and networks, a four-pronged strategy was put in place to respond to the break-out of COVID-19:

*Efforts have focused on 4 main areas:*



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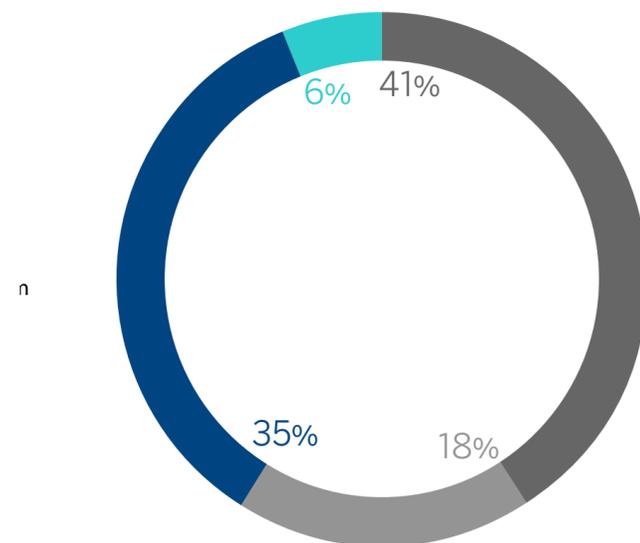
### Financial measures

In a context of generalized uncertainty, it has been fundamentally important to adapt how credit activity is managed, to comply with three key aims:

- I. Keep supporting entrepreneurs;
- II. Mitigate the credit risk associated with the COVID-19 crisis;
- III. Ensure the sustainability of all BBVAMF institutions

### 1 Portfolio, breakdown by financial solution

% of portfolio current as of July 2020



- Active grace periods
- Completed grace periods
- Portfolio w/o debt relief
- New portfolio

### Financial solutions at the outset of the pandemic

At the beginning of the pandemic, moratoria (grace periods) were put in place so as not to affect entrepreneurs' credit history: the obligation to pay credit was temporarily suspended without recording any impairment, either in internal systems or in the credit rating agencies and without charging for late payment. In some cases, these moratoria were massive and automatic, within the framework of governmental measures to support borrowers; in other countries, assessments were carried out case by case, in order to choose the most appropriate restructuring option for each client<sup>51</sup>.

At the close of July 2020, 59% of the entire portfolio had benefited from some kind of restructuring between March and July, while 41% still had their payment obligations suspended. At the same time, BBVAMF institutions got in touch with each of their clients individually to assess their situation and needs at that time: degree to which their economic activity had been impacted, how affected their close family and enterprise were, expectations of reactivation and credit needs, among other considerations. The aim was to offer them support and financial solutions that were better suited to their reality, as their activities reopened or continued. This was done by segmenting into groups, understanding the idiosyncratic features of each entrepreneur and each industry.

### Grace periods for 90/120 days on 59% of the portfolio in July 2020

### 2 Portfolio with financial solutions, by institution

% of portfolio current as of July 2020

	Bancamía	Financiera Confianza	Banco Adopem	Microserfin	Fondo Esperanza	Total
Total portfolio to end July 2020 (USD M)	253	304	42	20	28	647
% portfolio receiving debt relief	65%	58%	27%	85%	55%	59%

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This enabled us to design structural payment solutions by redefining the lending terms of those clients whose income or capacity to pay had been affected because of the situation created by COVID-19, safeguarding both the entrepreneur's financial viability and the financial sustainability of our institutions, as well as responsibility in taking on risks and losses.

*Restructuring and refinancing tailored to entrepreneurs' needs*

### 3 Client segmentation



Sales



Economic sector



Geography



Client profile



Operation status

Segment definitions using variables measuring impact from different perspectives that incorporated factors to define their reality more closely.





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### Financial solutions provided

#### Moratoria (grace periods)



Clients' payment obligations were postponed, on a one-off or rolling basis, without this impairing their rating in internal systems or credit rating agencies, and without applying late-payment charges.

**Aim:** to avoid a greater negative impact on the situation of a client whose economic activity had been suspended or whose capacity to pay had fallen temporarily.

All institutions.

#### Installment freezes



Quotas maturing during the lockdown period were postponed by some institutions to the end date of the loan, with no further interest charges.

Fondo Esperanza.

#### Freezes of days in default



Some institutions froze the days in default and the pre-pandemic credit rating held by clients, thus stopping at that moment the impairment recorded by credit rating agencies and the accounting status of those loans.

Banco Adopem and Financiera Confianza.

#### Payment schedules for accumulated interest charges



Some institutions set up interest-free loans to facilitate the payment of interest charges that accumulated during the payment holidays.

Bancamía.

#### Credit restructuring



Prolongation of the credit term to adjust the installment payment to clients' new credit and economic situation.

All institutions.

#### Renewals with or without new grace periods



Credit renewals were structured for performing clients, cancelling the previous loan without closure costs and issuing a new loan, in some cases postponing the first payment for 1, 2 or 3 months.

All institutions.

#### Write-offs without rescheduled remaining payments



In some cases the installments accumulated during the pandemic (interest charges and sometimes part of the capital) were written-off to make it easier for clients to get up to date with their installments or directly to cancel the entire balance remaining, whether by structuring a new payment plan, or in a single payment.

All institutions.

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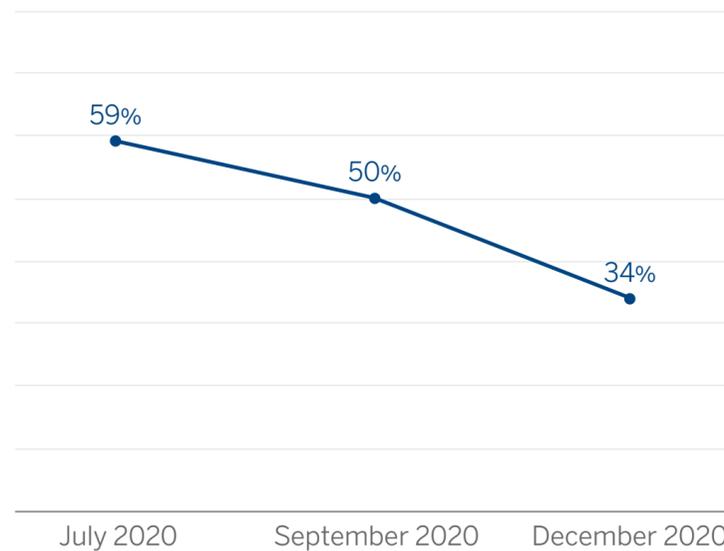
### Financial solutions provided

By December 2020, the proportion of the portfolio served with financial solutions had fallen to 34%, and of this, the portfolio under moratorium (grace period) fell to 7%, due to the reactivation of local economies, and thanks to the application of structural solutions based on segmenting clients so as to serve them according to their real needs and capacity to pay.



#### 4 Portfolio served with financial solutions

Portfolio current at each date



*Working with governments and regulatory bodies so that the microfinance sector could participate in special public lines of guaranteed financing*

#### 5 Portfolio served with financial solutions, by institution

December 2020

	Bancamía	Financiera Confianza	Banco Adopem	Microserfin	Fondo Esperanza	Total
Total portfolio to end of December 2020 (USD M)	431	573	107	24	58	1,192
% portfolio receiving debt relief measures	46%	28%	24%	78%	18%	34%

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### Reactivation of the economy

From the beginning of the pandemic, new resources, such as emergency loans, were granted to clients needing working capital or investment as part of our client support programs.

As economies started getting going again, we returned to managing renewals and new credit originations; here we were underwritten by guarantee funds that some governments made available to financial institutions. In addition, work was done with governments and national regulatory bodies so that the microfinance sector could be involved in special public lines of guaranteed financing. Credit processes and policies were adapted for this purpose. As of December 31st, 2020, the volume of loans originated after the pandemic accounted for 50% of the entire portfolio on that date.

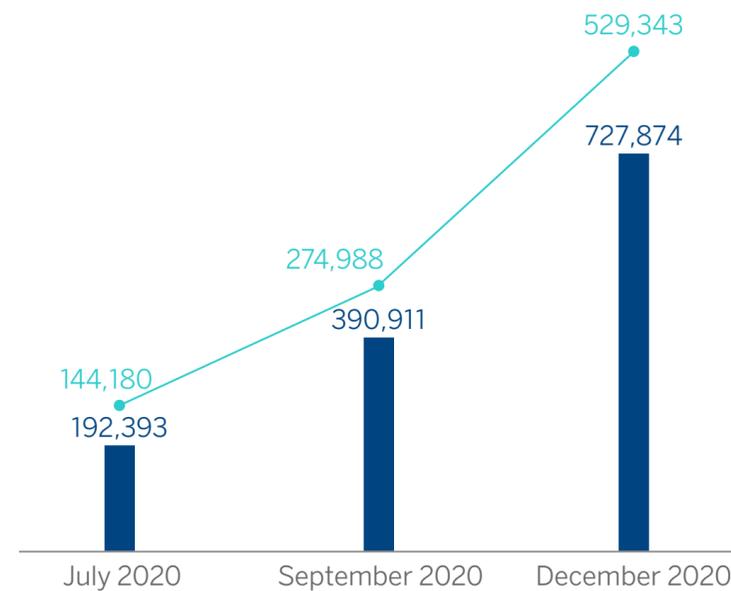
These loans are state guarantees granted to foment financing and reactivation of microenterprises:

- In **Peru**, Financiera Confianza disbursed USD 48.7 M, serving around 19 thousand clients under the umbrella of FAE governmental credit lines (incl. FAE women), Reactiva and FAE Agro;
- In **Colombia**, managing the secured placement enabled Bancamía to disburse USD 121.9 M, reaching around 94 thousand clients. 71% of the amounts disbursed between May and December were underwritten by the National Guarantee Fund (FNG) and the Farming Guarantee Fund (FAG).

*With the support of these public lines of credit, new loans to restart activity with a reduced interest rate and/or increased amounts, and with guaranteed coverage over part of any losses, stood at USD 208 M in December 2020*

#### 6 Amount disbursed from April 2020 onwards, accumulated

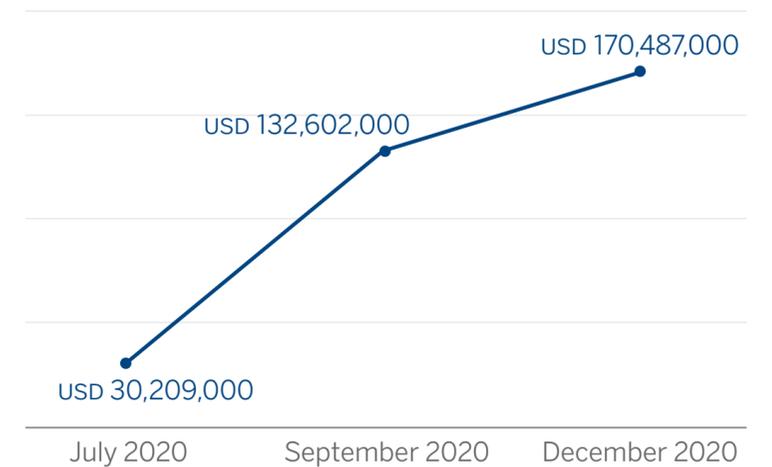
Accumulated April-December 2020



■ Disbursed amount (USD '000)  
● Nº disbursed operations

#### 7 Accumulated credit disbursements underwritten by governmental guarantee

Accumulated balance of disbursements on each date, secured by governmental collateral of some kind

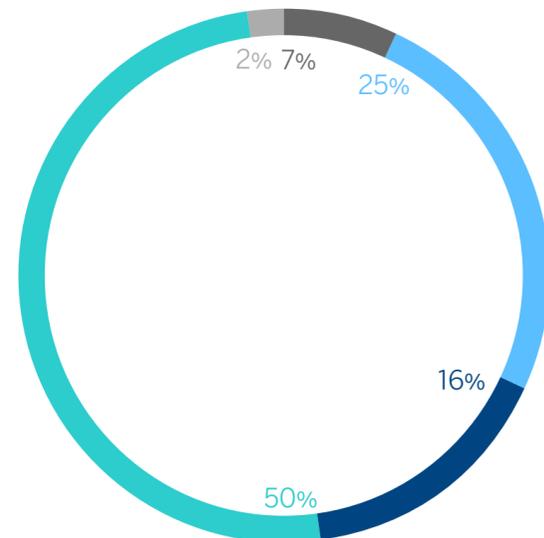


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Thus, at the close of December 2020, 50% of the portfolio was already new, reflecting entrepreneurs' swift reactivation and the support given, while 34% are still benefiting from financial solutions.

### 8 Portfolio breakdown, by financial solution

December 2020



- Active grace periods
- Completed grace periods
- Portfolio w/o debt relief
- New portfolio
- Restructured portfolio





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### Government transfers

The capillarity of BBVAMF's institutions in lower income brackets has enabled it to make itself available to the region's governments so that the measures adopted (direct transfers, social bonds, etc.), could reach the most affected population more efficiently.

Subsidies have mainly targeted people in situations of vulnerability<sup>52</sup> and, to a lesser degree, independent workers. In most countries, the amount provided was the equivalent of between two and three basic food baskets. Peru stands out, with subsidies that covered four basic food baskets.

Our microfinance institutions have channeled these subsidies in different ways, managing a total sum of USD 119 M, which has benefited around 500 thousand households. Two methods were used: by identifying vulnerable people among the clients already served by the entity (in the case of Peru and the Dominican Republic) or using a list provided by governments (in the case of Colombia); or else offering them vouchers (in the case of Panama) and information (Chile).

In Colombia, our cooperation has been key, since it has enabled the government to locate beneficiaries of social bonuses for basic needs who lack a bank account. By using a geolocation tool, vulnerable people have been able to open a digital account where they live and receive this aid every month. Over 270 thousand people have benefited from Bancamía's savings accounts, and have been banked with government subsidies. Furthermore, another 200,250 Bancamía clients have also received funds from the Solidarity Income Program and Solidarity for Bogotá.

*We have included 270,000 people in the financial system by geolocating them and helping them get enrolled onto government programs, including direct bank transfer applications*

High-impact public-private partnership



Strong technological support, using geolocation for people in remote areas



Commitment to those who need it most

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In Peru, Financiera Confianza was given a template of millions of beneficiaries by the government for the delivery of the Universal Family Bonus. After checking the beneficiaries against its own data base of current and past clients, the institution sent the list of beneficiaries it could serve to two Ministries, Development & Social Inclusion (MIDIS) and Work & Employment Promotion (MTPE). MIDIS and MTPE decided the final profile of beneficiaries that would be assisted through the accounts and branch offices of Financiera Confianza. Making full use of its extensive capillarity, Financiera Confianza was able to reach 196,736 people.

In the Dominican Republic, the process was similar to Peru, and reached almost 4 thousand people.

In Chile, Fondo Esperanza used a number of different remote channels (SMS, WhatsApp and social media), giving out information about emergency social programs run by different state institutions, so that microentrepreneurs can successfully apply for these, in some case providing them with flow-chart diagrams on how to obtain them.

Finally, in Panama the aid materialized through that country's Solidarity Plan, which consisted of delivering solidarity support (food banks, solidarity bonus and digital vouchers) to those affected by the pandemic to meet some of their basic food, hygiene and medication requirements.

*Subsidies have reached over 500 thousand homes, worth a total of USD 119M*



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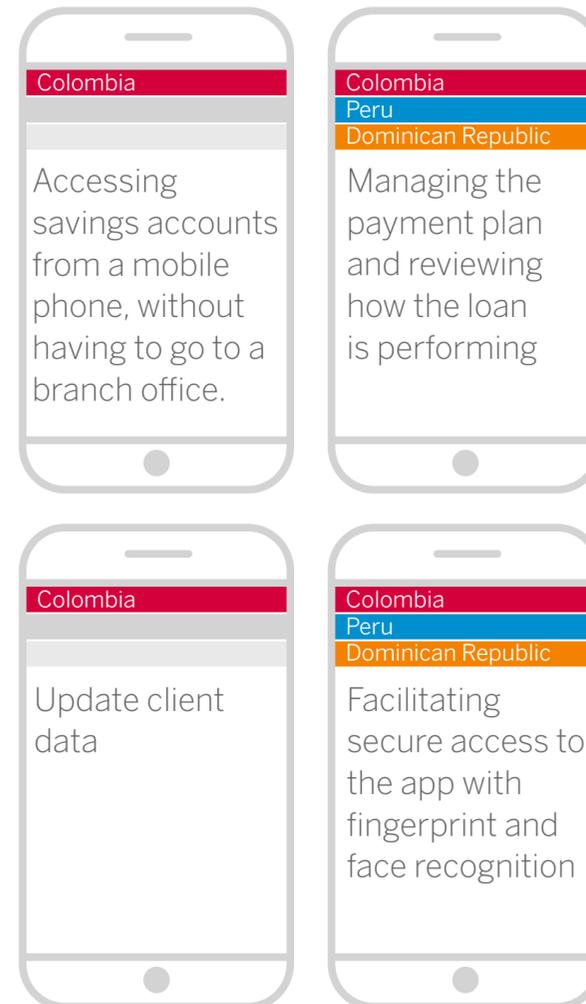
### Customer service

Our goal: to enable customers to have their finances closer to hand, faster to access. The extensive network of 583 branch offices, 643 banking agents and 49,185 transaction points has been pivotal in providing backing to vulnerable households in a situation of low mobility. But, in addition, to make the management of their financial products easier for our clients without their having to travel, digital channels have been strengthened, such as the Mobile Banking app, the Virtual Office, the website and the call center, operating 24/7. The functionalities of various digital channels have also been extended and new service points opened:

- **More online services.** From Mobile Banking, in Colombia the management functionalities of products have been extended, with the addition of the online application for credit, speeding up the credit validation and approval process from the client's home, managing the payment plan to review how the credit is going. In Peru and the Dominican Republic, the pilot phase of the mobile banking and internet banking app was launched.

- **On-site operating flexibility:** Transaction limits were raised, both in ATMs and with banking agents, such as transfers using Mobile Banking, which has increased liquidity. Furthermore, the advisor app has made it possible to open savings accounts for depositing State subsidies, which also enables clients to be geolocated.
- **Greater capillarity:** In Colombia, 125 new banking agents have been onboarded, 30% more than in 2019, reaching a total of 503 own banking agents, as well as 37,635 external agents (shared with other banks).

*Extending the functionalities of different digital channels and/or adding new service points*



- 

More digital channel functions:  
- Advisor app  
- Mobile banking
- 

Cybersecurity best practices
- 

Transactional ceilings raised
- 

Call center reinforcement
- 

WhatsApp & social media for reporting & consultations

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**Information and constant contact.** New channels have been opened up, using WhatsApp and social media, health-related messages, financing facilities on offer and public information messages from the local authorities.

On these platforms, which use artificial intelligence, clients can consult information about products and services, geolocate offices, ATMs or the nearest banking agent, find out about other, non-financial benefits, get advice on financial and digital education, as well as verifying their credit situation, among other issues.

Furthermore, in the case of Colombia, channels were set up to provide detailed information about the financial solutions being granted, in an entirely self-managed process with the active participation of credit advisors in other countries.



In a context of high uncertainty, BBVAMF institutions have been a major hub for data transmission about the crisis and care available. They have been in active communication with the communities where they work to ensure that they are satisfying these communities' needs in providing services that protect and empower the most vulnerable, while also generating economic inclusion.

**Reinforcing cybersecurity.** In the field of cybersecurity, the technology platform has been monitored permanently, as have the risks of cyberattacks and the transactional channels, generating new recognition activities that help to verify clients' identities and to offer greater security over the use of digital financial services.

Furthermore, cyber crisis tests have been developed and integrated into business continuity plans, in order to minimize the impacts.

*Uninterrupted contact with the client, transmitting health-related messages, financial facilities on offer and public information messages from the local authorities*

## Service to the community

Partnerships are a key tool in our response capacity, and we enjoy strong relationships with local and international NGOs, Community leaders and other actors. We ensure that collective measures are taken to alleviate the economic hardships resulting from this outbreak, designing strategies so that our resources have the greatest impact.

Specifically, these are:

### **Distribution of food and hygiene packs.**

Most poor households do not store food and often live from day to day. Guaranteeing a suitable supply of food and other basic necessities for vulnerable households is particularly important during this outbreak.

- In Chile, Fondo Esperanza, in collaboration with the country's development bodies, took part in the launch of the *Chile Comparte* [Chile Shares] campaign, focusing on the most affected users in each organization. This made it possible to support around 18 thousand entrepreneurs and their families, who received 7,200 food boxes and 11 thousand hygiene packs. Furthermore, part of this campaign's food distribution was carried out by grocers who bank with Fondo Esperanza, promoting their work and boosting local economies.

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- What is more, as part of this campaign, a thousand grocers who are banked with Fondo Esperanza delivered food to over 26,000 people, injecting more than USD 600 thousand into local economies.
- In Colombia, Bancamía was also involved in channeling the Government's solidarity campaign *Ayudar nos hace bien*, [Helping out does us good]. Several different channels were set up to collect donations to purchase food to supply needy families. USD 8,158 was collected.

### *Cooperating with local institutions to deliver food and hygiene packs to communities*

**Driving the sale of our entrepreneurs' textile masks.** Chilean and Colombian microentrepreneurs have contributed to the making and sale of masks.

- Working with the Chilean Confederation of Production & Trade, several women entrepreneurs reinvented their trades, sewing 1.25 million masks that were donated to vulnerable groups, generating work for over 1,600 people and injecting nearly USD 800 thousand into local territories.
- In Colombia, the 30 thousand masks sewn by one Colombian woman entrepreneur were given to co-workers and clients who came into the offices without masks.

**Healthcare and education.** Bancamía and BBVA Colombia's *Transformando Realidades* [Transforming Realities] program has handed out grants to five daughters of microentrepreneurs so that they could start a university degree in 2021.

As an alternative support mechanism for entrepreneurs and their families, we continued to offer insurance products that included healthcare, psychological guidance, and legal advice at affordable prices. Bancamía and Microserfin sold a total of 53,485 policies in 2020.

We stand side by side with our entrepreneurs, close to their communities, and we will not stop there. Going beyond financial services, we look for new technologies to increase internet access, new functionalities for online operations, housing, healthcare and education products, others to meet different household needs, multidimensional products and, lastly, partnerships to define collective actions that help to reactivate microenterprises. We are maximizing our national reach in all countries, our relationships and our 12 years of experience on the front line, using our skills and dedication to protect the most vulnerable communities and encourage their progress.

*We stand side by side with our entrepreneurs, close to their communities, and we will not stop there. Going beyond financial services, we are looking for new technologies, products to serve other household needs, and partnerships that help to reactivate microenterprises*