



## Peru: Building on Gains in Social and Financial Inclusion

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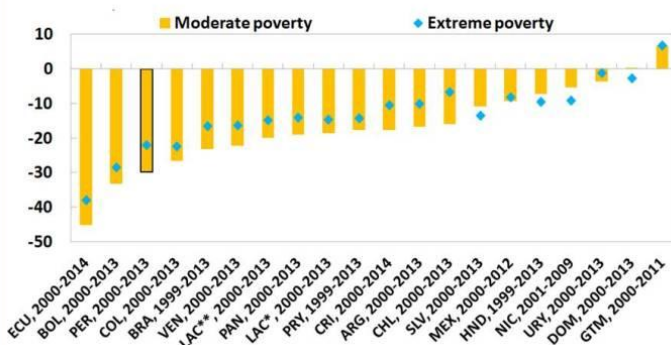
Over the past decade, Peru has made good progress in expanding access to financial and social services. Can further progress be achieved in an era of lower commodity prices and slower economic growth? We believe it is possible, but to make further gains, the government will need to expand proven inclusion programs while successfully implementing new initiatives.

### Social progress

Latin America has made significant strides in reducing poverty in recent years, thanks to favorable external conditions and well-targeted social programs. In Peru, the poverty rate fell by more than half—from 59 percent in 2004 to 23 percent in 2014—with about one-third of the population moving into an expanding middle class. The extreme poverty rate dropped to about 4 percent by 2014, with the Gini coefficient (a measure of income inequality that ranges from 0 for perfect equality to 100 for absolute inequality) declining to 44. The rural poverty rate, however, remains over 46 percent, with about 15 percent of children still suffering from chronic malnutrition.

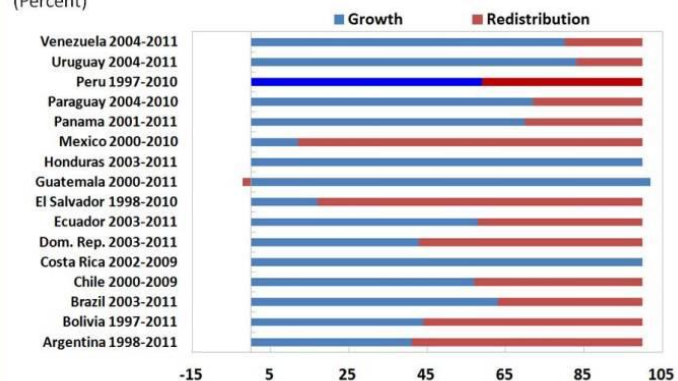
[Studies](#) suggest that about half of past poverty reduction can be attributed to growth—with the remaining portion linked to redistributive policies. Staff's [recent report](#) on the state of the Peruvian economy states that less favorable terms of trade may result in lower potential growth going forward. Moreover, mining related social conflicts—reflecting concerns on the use and distribution of natural resource wealth as well as the current state of social inclusion—may also hinder growth prospects.

Chart 1. Latin America: Changes in Poverty Rates in the 2000's 1/ (Percentage points)



Sources: Interamerican Development Bank, and Fund staff estimates.  
1/ Moderate poverty corresponds to poverty headcount ratios at US\$4 PPP a day, while extreme poverty refers to poverty headcount ratios at US\$2.5 PPP a day.  
Note: LAC\* corresponds to simple average and LAC\*\* to apopulation weighted average.

Chart 2. Latin America: Contribution of Growth and Redistribution to Poverty Reduction 1/ (Percent)



Source: Lustig, Lopez-Calva and Ortiz-Juarez (2013).  
1/ Datt and Ravallion decomposition using \$4 PPP poverty

## Old and new initiatives

In this context, the authorities are implementing a number of initiatives—some old, some new—to further promote social and financial inclusion:

- Increased allocations for social programs.** Peru’s social safety net consists of 5 programs focused on: the provision of school meals (Qali Warma); human capital development of female headed households (Juntos); elderly support (Pension 65); rural assistance (Haku Winay, Foncodes, FONIE ); and early infant development (Cuna Mas). These programs are woven within a national social inclusion and development strategy (Incluir para Crecer), which covers all stages of life. Social spending in 2015 will be raised by 26 percent to expand the coverage of some of these programs.

	Budget 1/	Coverage
Qali Warma	0.24	3 million children
Juntos	0.18	800,000 families
Pension 65	0.13	520,000 elderly
Rural assistance	0.10	20,000 households
Cuna Mas	0.06	70,000 infants
<b>Total</b>	<b>0.71</b>	<b>Over 5 million people</b>

1/ In percent of GDP.  
Sources: Ministry of Development and Social Inclusion.

- Education reforms.** Efforts center on improving the quality of infrastructure, instruction, and school administration at primary and secondary levels. The plan is to raise compensation based upon teacher evaluations and training; increase the number of performance-based teaching grants and bonuses; and make investments in school construction as well as renovate older facilities. The length of the school day will be expanded in a number of pilot schools, and English language classes will be gradually introduced nationwide. The goal is to raise education spending—from the current level of below 3 percent to around 4 and 6 percent by end-2016 and 2020, respectively—through annual ½ percentage point of GDP increments.
- Financial inclusion.** Only 29 percent of adults in Peru have a bank deposit account, while credit and deposit-to-GDP ratios (under 35 percent) remain low by regional standards. Geographic isolation, high costs, informality, and lack of trust in the banking system are often cited as key barriers to greater financial inclusion. In recent years, the authorities have expanded access and usage of financial services through improved regulation and supervision, transparency, consumer protection, and financial education. In 2013, the banking supervisor implemented a training program for teachers on financial issues, and in late 2014 it unveiled a “financial inclusion opportunities map.” The map is an interactive tool that provides detailed geographical information on more than 150 indicators regarding the access and use of financial services throughout the country. It also pushed the creation of more low cost savings

products within the financial system. The banking system is working to improve access to financial services with the promotion of an innovative “Peruvian model” based on electronic e-money legislation passed in 2012 and a new unified mobile payments platform that links together financial institutions, telephone service providers, and customers. A high level Financial Inclusion Committee will coordinate these multi-disciplinary actions under the umbrella of a National Financial Inclusion Strategy.

<b>Peru: Obstacles and Opportunities for Financial Inclusion</b>	
(In percent of respondents)	
<b>Obstacles</b>	
Limited financial literacy	73
Unsustainable growth	60
Product costs	59
Limited understanding of customers needs	55
Poor business practices	54
<b>Opportunities</b>	
Financial education	78
Expanding the range of products	55
Mobile phone banking	53
Correspondent banking	52
Provision of no-frills accounts	48

Source: Center for Financial Inclusion, Publication 21.

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