



## Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

# COUNTRY BRIEF

| AUGUST 2009 | CSD PUBLICATION NO. 09-35 |

## Peru Country Assessment for Youth Development Accounts

By Rainier Masa

*CSD is part of a global consortium supported by the MasterCard Foundation that is exploring the potential for piloting a Youth Savings initiative in multiple developing countries. In addition to CSD, the consortium includes Save the Children, the Consultative Group to Assist the Poor (CGAP), and the New America Foundation. The consortium's goals for the 2009-2010 year include identifying six developing countries in which to implement these pilots, along with local financial and research institutions that could assist in implementing and evaluating the pilots.*

*This brief is one of a series that CSD has prepared on candidate countries in Asia, Africa, and Latin America. This brief, like the others, assesses the candidate country on four criteria: institutional capacity, national political interest, research capacity, and broader macroeconomic environment.*

### Summary

Peru stands out as a candidate site to include in the worldwide demonstration of Youth Development Accounts (YDAs) in four ways: (1) a well-regulated and innovative banking infrastructure; (2) national interest in asset-based development policy and expansion of financial services to unbanked populations; (3) excellent research capability; and (4) large potential impact of YDAs in the country and region.

### Basic Population and Economic Indicators

- » Population: 27.90 million (World Bank, 2007)
- » Percent of population under age 15: 32 (Population Reference Bureau, 2008)
- » Youth ages 10-24 (percent of total population, 2006): 30 (Population Reference Bureau, 2008)
- » Median age: 26.1 (CIA, 2009)
- » Income level: Upper-middle income (World Bank, n.d.)
- » GDP per Capita (PPP US\$ in 2005): 6,039 (UNDP, 2007)
- » Percent of population below national poverty line (2004): 53 (total), 43 (urban), 72 (rural) (UN Statistics Division, n.d.)
- » Percent of population living on \$2 a day or less (1990-2005): 30.6 (UNDP, 2007)



Washington University in St. Louis

## Institutional capacity

Peru has a well-regulated, reliable, and nationwide banking infrastructure to deliver Youth Development Accounts (YDAs). The country has a relatively developed financial system, and YDAs can likely be implemented through this existing infrastructure. The Peruvian financial sector has seven different types of financial institutions: commercial banks, financial entities, *cajas municipales* (CMACs or municipal savings and loans associations), *cajas rurales* (CRACs or rural savings and loans associations), cooperatives (CACs), EDPYMES (organizations for development of small and micro enterprise), and non-governmental organizations (NGOs). All of them, except CACs and NGOs, are regulated by the Superintendency of Banks and Insurance (SBS). The CACs are supervised indirectly by the SBS through the Federation of CACs, while NGOs are not regulated (Valdivia & Bauchet, 2003).

In Peru, like in many other developing countries, microfinance has been growing significantly over the past two decades, especially in urban areas. The country has a relatively well-developed microfinance sector, which is comprised of CMACs, CRACs, and EDPYMES.<sup>1</sup> Microfinance institutions (MFIs) and their operations are regulated under the same rules as commercial banking and other financial institutions in Peru, with some differences in the minimum capital requirement and the number of operations allowed (Ebentreich, 2005). CMACs are the largest providers of microfinance services in Peru, collecting 80% of the total savings mobilized by MFIs and 74% of the total microcredit clients and portfolios in the country (WSBI, 2008). Aside from their positions as important savings mobilizers in the country, CMACs also play an important role in investing in their regions. For instance, of the 154 million USD savings collected in Lima, 60% goes to the municipalities as investments in credits and microcredits (WSBI, 2007).

Microfinance represents around 5% of the financial sector and around 30%-40% in terms of borrowers (Siedek, 2007). Aside from savings and microcredit, MFIs provide consumer and agricultural credit, basic payment services, and international remittances. MFIs have been the fastest-growing financial institutions in Peru over the last decade, and have reached a market niche that is underserved by mainstream banking institutions (Ebentreich, 2005). One remarkable example of growth and transformation in the Peruvian microfinance sector is the case of MiBanco. MiBanco (“My Bank”), which started as an NGO dedicated to providing

development opportunities for low-income Peruvians, evolved to be the first commercial bank in Peru (and second in Latin America) with its core business focused on providing financial services to poor and low-income households. Less than five years after the transformation, MiBanco has become one of the few microfinance commercial banks in the world that profitably serve the low-income market (Fernando & Calcetas, 2003). This impressive growth has increased competition not only among MFIs, but also with commercial banks, since many MFIs are concentrated in urban areas where commercial banks are located. After seeing the exemplary results achieved by the MFIs, mainstream commercial banks, such as Banco de Crédito del Peru (BCP), Banco del Trabajo (now Crediscotia), Interbank, and Scotiabank, have started to reach out to low-income clients and compete in this market.

The promotion of rural and pro-poor outreach has also led to financial access innovations, which have strengthened the institutional capacity of financial providers. One significant innovation is the use of correspondents (also known as banking agents) to shift low-value transactions away from the more costly branch channels and extend the reach of existing branches. Since 2005, Peruvian banks have been establishing networks of banking agents, or “*cajeros corresponsales*,” to handle transactions on behalf of banks. Peru has over 2,400 banking agents,<sup>2</sup> 51% of whom are in the Lima metropolitan area, and 41% of whom are scattered throughout the rest of the country (Mas, 2008). BCP, one of the largest banks in Peru, has actively experimented with using agents to establish a presence away from its existing retail network, placing more than 1,000 banking agents in independent pharmacies, small supermarkets, and other shops (Mas, 2008). Although correspondent agents in Peru have been successful, several challenges exist in implementing them. These challenges are similar to the barriers encountered by correspondent agents in the region: lack of training on how to operate the system, complex transactional sequences, unfavorable locations that do not attract high client traffic, absence of dedicated phone line for point-of-sale systems, lack of space to showcase the service at the location, and limited infrastructure (such as electrical power, phone line for data transmission, or GSM coverage for wireless communication in rural areas) (Barton, del Busto, Rodriguez, & Liu, 2007).

In summary, the combination of established pro-poor financial institutions (such as MiBanco) and

technological innovations (such as branchless banking through correspondent agents) to deliver financial products and services makes Peru a favorable candidate to include in the demonstration of Youth Development Accounts in the developing world.

## National government interest

The political interest in expanding financial services to millions of Peruvians who lack access to financial products and services is excellent. The creation of CMACs in the 1980s, for instance, was undertaken with the specific objective of providing financial services to segments of the population who lack access to the formal financial system (WSBI, 2008). More recently, the government recognized the need to expand financial access by implementing regulatory changes, strengthening customer protection, and promoting the use of banking agents. Government regulators in Peru have shown flexibility regarding the implementation of banking agents as viable alternatives for increasing the outreach of financial institutions. Peruvian regulators, for instance, have modified and created new laws to allow the use of banking agents for transactions such as money transfers, deposits in savings accounts, and payment of bills (Barton, del Busto, Rodriguez, & Liu, 2007). All of these changes have benefited rural and poor Peruvians. Within two years, the percentage of the rural poor who have access to banking exclusively through banking agents has grown to 16% (Mas, 2008). Most banking agents have deliberately targeted areas where there are no bank branches, indicating the banks' interest in reaching out to low-income and underserved districts. Additionally, the country's conditional cash transfer program, Juntos, allows the poorest households to access financial services. Beneficiaries of the program receive cash benefits only through their bank accounts at Banco de la Nación (Fiszbein & Schady, 2009).

The political environment is also conducive to asset-based socioeconomic development policy. In Peru, building assets for the poor is increasingly viewed as a promising poverty reduction strategy, with relatively low costs and high returns over time. Two innovative asset-based poverty alleviation initiatives are underway in the country, with support from the International Fund for Agricultural Development (IFAD). The first, a six-year asset-building pilot program, is now underway in southern Peru as part of the Corredor Puno-Cusco Project. The second, the Southern Highlands Project in rural Peru, began in early 2005 (Moury, 2006). The goals

of both projects are to build assets and increase access to financial services among the rural poor, especially women.

## Research capability and partnerships

The Center for Social Development has established a relationship with the Institute for Peruvian Studies (IEP), a private non-profit organization with no religious or partisan affiliations. IEP focuses on research, teaching, and dissemination of studies on Peru and other Latin American countries. The Institute has close collaborative relationships with various governmental organizations, such as the Ministry of Education, the Central Bank, and the National Council for Sciences and Technology.

Other potential research partners in Peru include Group for the Analysis of Development, Center for Sociology, Economics, Politics, and Anthropology Research, and Center for Research at University of the Pacific. Group for the Analysis of Development (GRADE) is a private, non-profit research center based in Lima. GRADE has devoted itself to the study of economic, educational, environmental, and social topics in areas relevant to the development of Peru and other Latin American countries. Center for Sociology, Economics, Politics, and Anthropology Research (CISEPA) is a research center based in the Catholic University of Peru, and focuses on research, teaching, and dissemination of the studies that advance the country's social and economic development. Center for Research at University of the Pacific (CIUP) is another university-based research center in Peru. CIUP is affiliated with the University of the Pacific, and has conducted studies in the areas of economics, business, and social issues.

## Larger potential impact in the country and region

With a young population (median age is 26), a broad-reaching and innovative financial infrastructure, and well-developed political support, the potential impact of YDAs in Peru is enormous. A great number of the country's poor, indigenous, and out-of-school youth can be reached through our efforts. A successful demonstration of YDAs can inform a larger and more inclusive savings and asset-based policy in Peru and other countries in Latin America.

## Endnotes

1. CMACs are owned by local governments and operate in provinces, helping small businesses to expand their services by offering them financial products from funds collected in the communities. CRACs are privately-owned and operate mainly in rural areas with large agriculture and livestock industries. EDYPMEs are NGOs that provide loans to microentrepreneurs (Ebentreich, 2005).
2. Peru ranks fourth worldwide after Brazil, the Philippines, and South Africa.

## References

CIA (Central Intelligence Agency). (2009). *Peru*. Retrieved June 12, 2009 from <https://www.cia.gov/library/publications/the-world-factbook/geos/pe.html>

Barton, S., del Busto, C., Rodriguez, C., & Liu, A. (2007). *Client-focused MFI technologies case study*. Washington, DC: USAID.

Ebentreich, A. (2005). *Microfinance regulation and supervision in Peru: Current state, lessons learned and prospects for the future* (Essays on Regulation and Supervision No. 4). Washington, DC and College Park, MD: CGAP and IRIS Center.

Fernando, N., & Calcetas, P. (2003). *MiBanco, Peru: Profitable microfinance outreach, with lessons for Asia*. Manila: Asian Development Bank.

Mas, I. (2008). *An analysis of Peru's "cajeros corresponsales."* Retrieved June 12, 2009, from <http://www.cgap.org/gm/document-1.9.2111/Analysis%20of%20agents%20in%20Peru.pdf>

Moury, Y. (2006). *Asset-building initiatives in Peru and Colombia: Pilot study and directions* (CSD Policy Brief 06-25). St. Louis, MO: Washington University, Center for Social Development.

Population Reference Bureau. (2008). *Population age <15 (%)*. Retrieved June 15, 2009, from <http://www.prb.org/Datafinder/Topic/Bar.aspx?sort=v&order=d&variable=31>

Population Reference Bureau. (2008). *Youth ages 10-24( % of total pop.)*. Retrieved June 15, 2009, from <http://www.prb.org/Datafinder/Topic/Bar.aspx?sort=v&order=d&variable=55>

UNDP (United Nations Development Program). (2007). *Human development report 2007/2008*. New York: United Nations Development Program.

United Nations Statistics Division. (n.d.). *Peru*. Retrieved June 12, 2009, from <http://millenniumindicators.un.org/unsd/mdg/Data.aspx>

Valdivia, M., & Bauchet, J. (2003). *Information sharing and microfinance in Peru*. Retrieved June 20, 2009, from <http://www.basis.wisc.edu/live/credit/Credit%20Bureaus%20Peru,%20Guatemala,%20Bolivia.pdf>

World Bank. (n.d.). *Country groups*. Retrieved June 9, 2009, from <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>

World Bank. (2007). *Peru: Key development statistics*. Retrieved June 12, 2009, from [http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT\\_ID=9147&REQUEST\\_TYPE=VIEWADVANCED&HF=N&WS](http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&HF=N&WS)

WSBI (World Savings Bank Institute). (2007). *Ten years of sharing innovations in the savings market*. Brussels: WSBI.

WSBI. (2008). *Microfinance in Latin America: The leadership of WSBI members*. Brussels: WSBI.

## Author

Rainier Masa, International Project Manager  
rmasa@gwbmail.wustl.edu

## Contact Us

Li Zou, International Director  
lzou@wustl.edu  
(314) 935-3469

Center for Social Development  
George Warren Brown School of Social Work  
Washington University in St. Louis  
Campus Box 1196  
One Brookings Drive  
St. Louis, MO 63130

[csd.wustl.edu](http://csd.wustl.edu)



### CENTER FOR SOCIAL DEVELOPMENT

George Warren Brown School of Social Work  
Campus Box 1196  
One Brookings Drive  
St. Louis, Missouri 63130-4899