

# Financiera Confianza **Peru**

Social Performance  
Report 2016



**Measuring  
what really  
matters**

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“When there was no going back, there was no point in wasting time asking yourself whether it would have been better if things hadn’t happened. It was better to get them going again in the right direction”.

*The Dream of the Celt*  
**Mario Vargas Llosa**

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# Planting opportunities

**Financiera Confianza** is an institution that provides financial products to improve the incomes and standard of living of its approximately half a million clients, whom it guides through the various phases of productive activity, offering them financial education along the way.

Financiera Confianza, S.A.A. is the leading microfinance entity in Peru. Its mission is to build opportunities for low-income families, improving their incomes and standard of living through Responsible Productive Finance. It came about in 2013 from the merger of Caja Nuestra Gente and the former Financiera Confianza, two institutions with long microfinance track records in Peru. Caja Nuestra Gente was set up by the BBVA Microfinance Foundation in 2008 and itself was the result of a three-way merger between Caja Nor Perú, Caja Sur and Edpyme Crear Tacna.

It is the only microfinance institution with a footprint throughout the whole of Peru and the one with the biggest rural reach. It serves around half a million clients out of 149 branches, providing a range of financial

products and services to help them in the different phases of their productive activities and through their sustainable economic and social development.

The institution also provides financial education to entrepreneurs with its *Palabra de Mujer [Woman's word]* group loan and *Ahorro para Todos [Savings for all]*, an innovative program that was cited by the United Nations' Sustainable Development Goals Fund (SDG Fund) in its November 2016 report *Universality and the SDGs: A Business Perspective*.

This year, one of Financiera Confianza's clients, Nimio Yupán, was awarded one of the *Microenterprise Awards (Premic 2016)*. Nimio is a coffee grower in Villa Rica, one of Peru's best known coffee growing areas.

A decade ago, he changed from wood production to planting coffee, without knowing much about the crop. Today his label, Café Monreal, has won four *Silver Beans* in the National Quality Coffee Awards. Nimio has been a client of Financiera Confianza for several years. He used his first loan to expand the amount of land under production. Since then, Financiera Confianza has traveled with him along the way, and his efforts have been recognized with the second prize in the "production" category of the *Premic 2016*.

In 2016 the International Family Institute (IFI), based in Chimbote, honored Carlos Rojas, Director of the Chimbote branch of Financiera Confianza, S.A.A. as *Director of the Year*, for his contribution to the finance and economic development of the

Financiera Confianza is the only microfinance institution with a footprint throughout the whole of Peru and the one with the greatest reach in the countryside. It serves around half a million clients from its 149 branch offices.

Áncash region. The IFI awarded him the *International Golden Ribbon for Good Management Practice in Public and Private Management*. ■





# Summary of activity

Data as of 12.31.2016.

Gross loan portfolio (USD)

467,940,439

Amount disbursed in 2016 (USD)

593,969,100

Nº of transactions in 2016

301,111

Average disbursement in 2016 (USD)

1,973

Deposits & others (USD)

322,437,594

Nº of employees

2,137

Nº of offices

149

People receiving financial education

54,549

# Management team and board

## Management team

**Martín Naranjo**  
General Manager

**Ana Cecilia Akamine**  
Deputy General Manager,  
Finance

**Martín Santa María**  
Deputy General Manager,  
Sales

**Sandra Jáuregui**  
Deputy General Manager,  
Economic Research

**Pilar Flores**  
Deputy General Manager,  
Risks

**Bárbara Castro**  
Deputy General Manager,  
Legal Services

**Luis Escalante**  
Deputy General Manager,  
Human Resources

**Jorge Palomino**  
Deputy General  
Manager, Infrastructure &  
IT Resources

**Dante Cornejo**  
General Auditor

## Board

**Ramón Feijóo**  
President

**Elizabeth Matilde Ventura**  
Vice-President

**Ignacio Rojas-Marcos**  
Director

**M<sup>a</sup> Mercedes Gómez**  
Director

**Javier M. Flores**  
Director

**Elizabeth Nava**  
Director

**Carlos Héctor Alayza**  
Director

# Measuring

Financiera Confianza is sticking to its focus of serving low-income microentrepreneurs: 75.7% of these are classified as *vulnerable*. Moreover, 44% of clients classified as *poor* manage to overcome the poverty line in their second year with the institution. Assets have grown significantly, from an already high starting point, which indicates that microenterprises are reinvesting and entrepreneurs are consolidating their wealth.



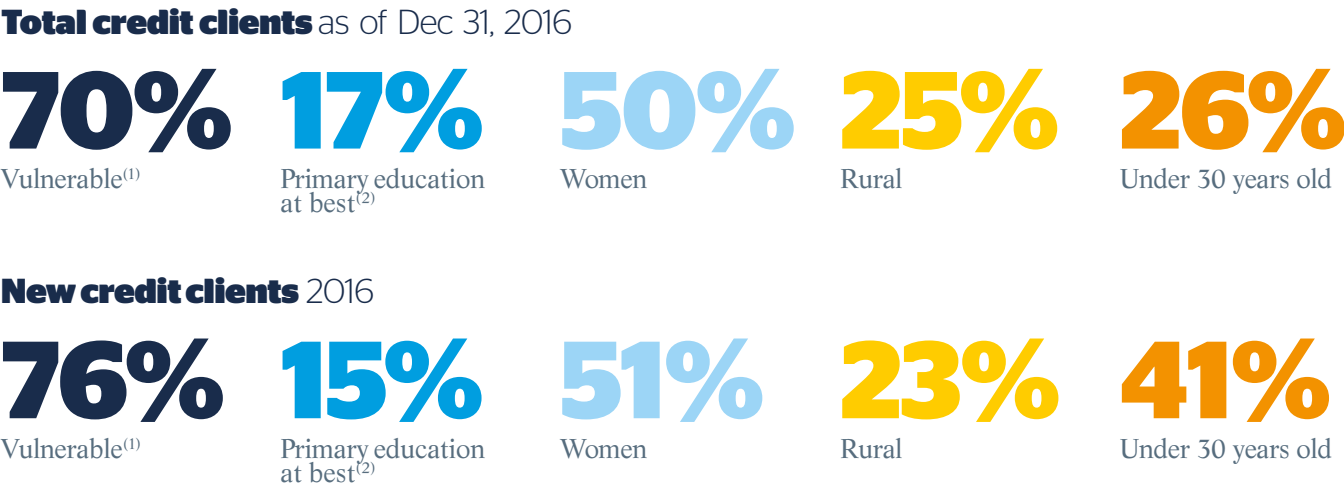
**Total clients**  
**468,902**

**Total credit clients**  
**212,134**

**New credit clients**  
**82,554**

(1) According to the INEI poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three are classified as *vulnerable*.

(2) Proportion of all credit clients who have completed primary education, at best



# Our clients and our scale

Financiera Confianza has remained stable in the last few years as far as acquiring vulnerable clients is concerned, with continuous growth in financing enterprises set up by young people under 30 years old.

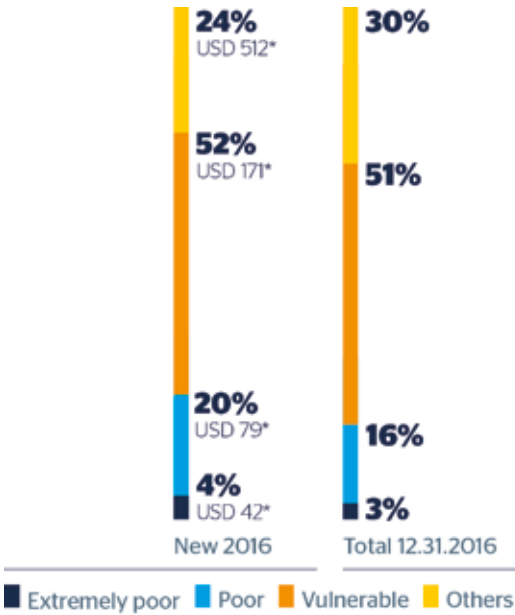


**76% of new vulnerable clients served in 2016 live on USD 4.6 per person a day.**  
For 24% of new *poor* clients, that figure falls to USD 2.4.

- 2016 was another year of economic growth for Peru, and although the market suffers from low financial inclusion, there is a broad range of microfinance products and services. This competitive dynamic is reflected in Financiera Confianza's activity, which reported lower new client acquisition than in 2015. Despite these challenges in signing up new clients, the focus on *vulnerable* clients remained stable (75.7%).

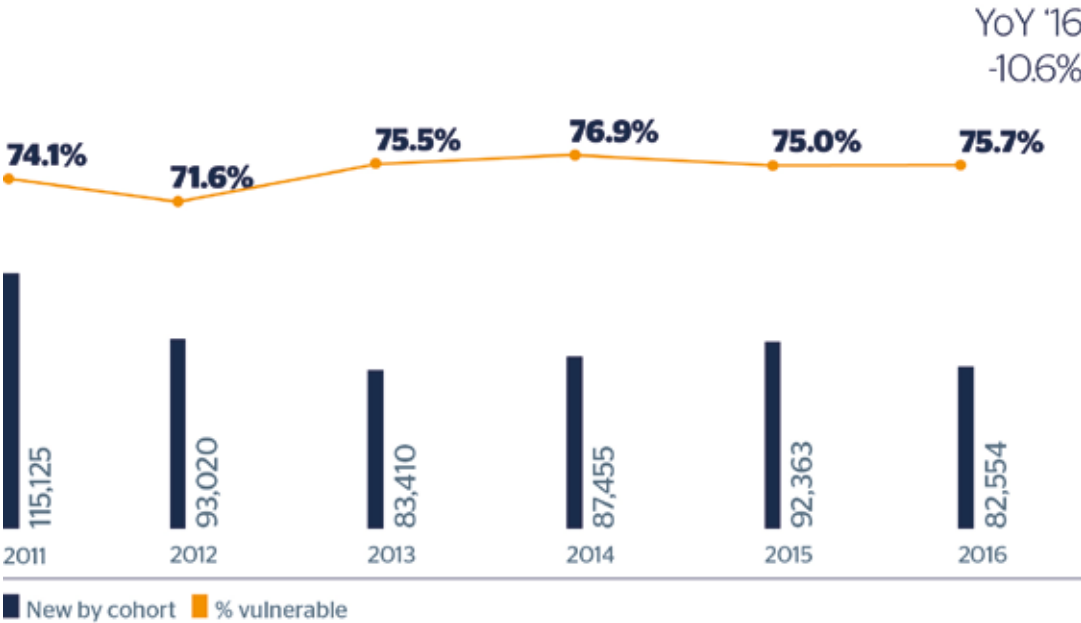
(1) According to the INEI poverty line (differentiating between the rural and urban environments). Clients whose net income *per capita* (estimated as the business net income divided by the size of the household) is above the poverty line, but below the threshold calculated by multiplying the poverty line figure by three, are classified as *vulnerable*.

Clients' economic vulnerability (1)



\*Monthly net income per capita.  
Source: Financiera Confianza, BBVAMF calculations.

New credit clients (2)

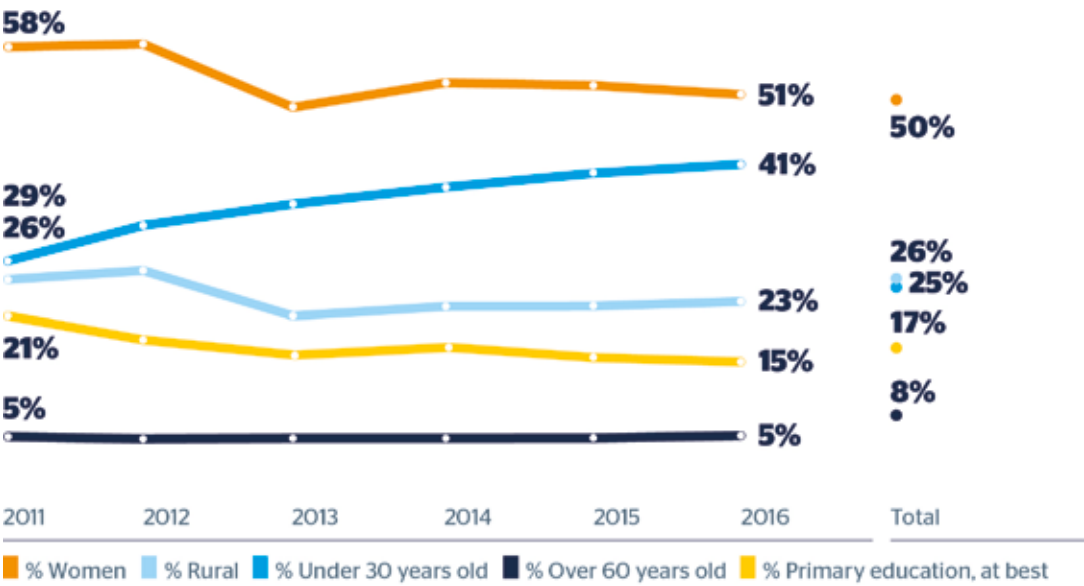


(2) New clients (without previous loans) signed up over the year.

Source: Financiera Confianza, BBVAMF calculations.



Profile of our credit clients (3)



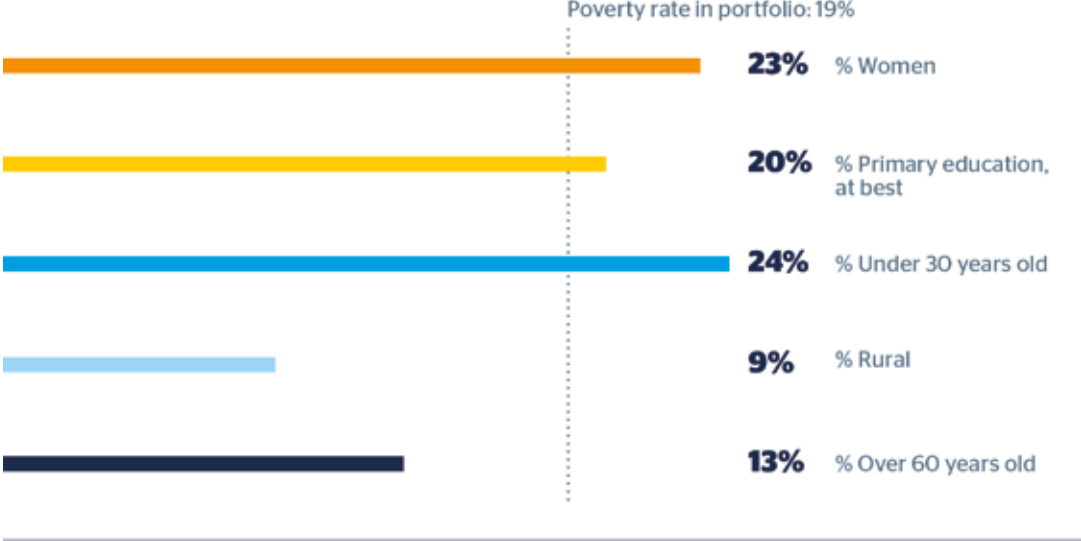
Source: Financiera Confianza, BBVAMF calculations.

**In 2016 the primary focus was on serving women and young people under 30, segments with higher poverty rates than the average.**

- Clients' educational levels are higher than in other Group entities: only 17% of clients have primary education at best (vs. 45% for the Group as a whole); this is consistent with the high participation of young people (better educated) and urban clients.
- Downward trend in average value of monthly sales and in new client disbursements, consistent with the greater emphasis on signing up *vulnerable* clients. The weight of the payment installment over sales has risen to 9.8% for new clients in 2016.

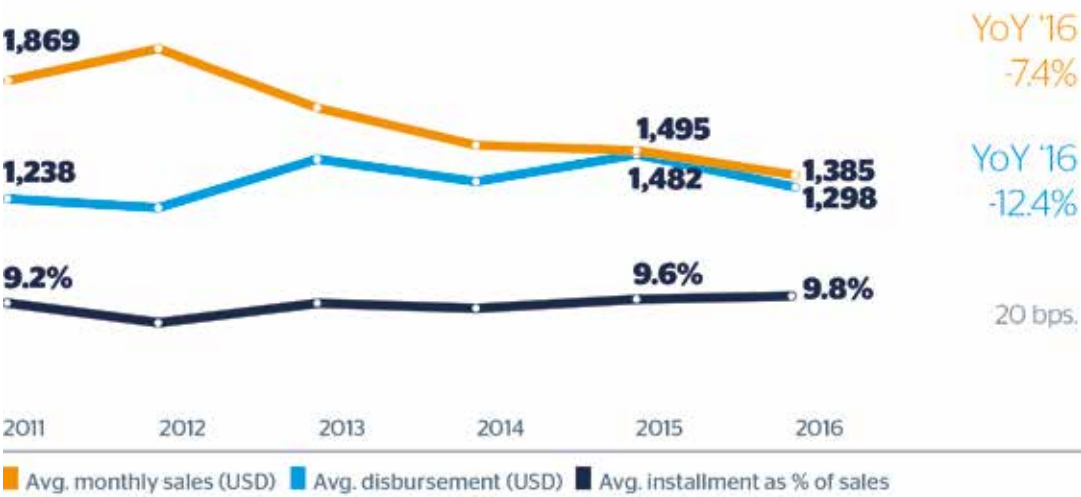
(3) New clients (without previous loans) signed up over the year. The total gives clients current as of 12.31.2016.

Poverty profile (4)



Source: Financiera Confianza, BBVAMF calculations.

New clients' sales, disbursements USD & weight of installment (5)



Source: Financiera Confianza, BBVAMF calculations.

(4) Clients current as of 12.31.2016  
(5) New clients (without previous loans) signed up during the year.  
• Average disbursement, calculated as the average first disbursement for new clients each year.  
• Weight of the installment calculated as a ratio average (installment divided by sales) of each client.

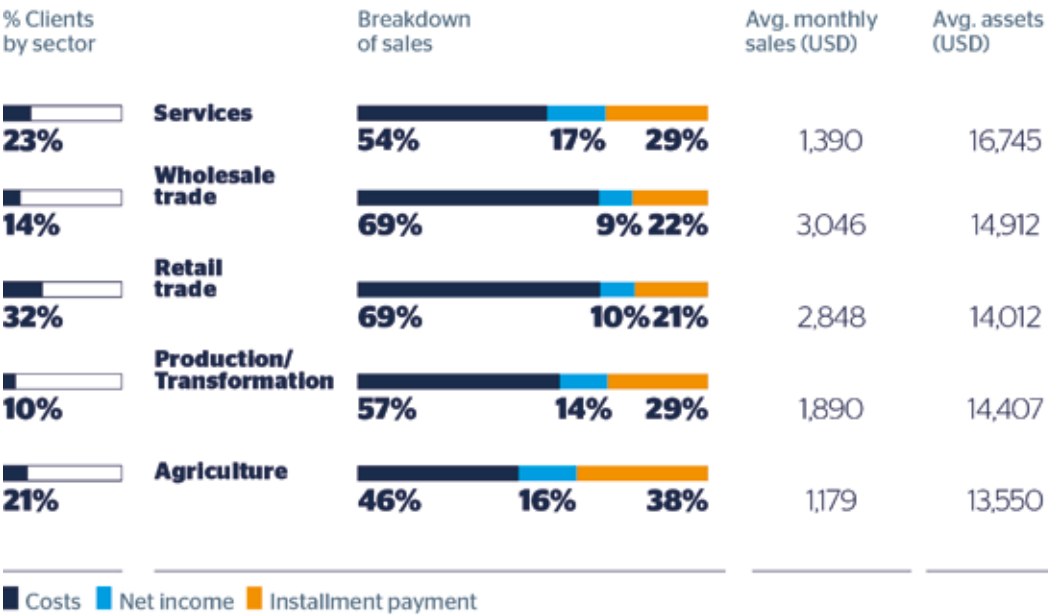
# Our clients' businesses

44% of Financiera Confianza clients work in *agriculture* and *services*, segments with the highest operating margins.



- Clients served show high levels of diversification across activity sectors.
- The sector with the greatest representation is *retail trade*, with low margins (21% margin after paying the loan installment). *Trade* has faster asset rotation (sales over assets) than agriculture, where rotation is slow, but the latter has higher productivity (38% margin after paying the installment).
- Financiera Confianza's clients' microenterprises have high assets compared to other institutions and slightly lower margins, suggesting they may invest more in their assets.
- The *agriculture* sector has, compared with other sectors, a low level of assets, a sign that although it is composed of less *vulnerable* clients, it has on average a lower level of wealth.
- In Peru, 58% of the *poor* population works in *extractive industries* (agriculture, fisheries and mining) and 23% in the *services* and *trade* sectors (see *Macroeconomic context*). *Agriculture* is a labor opportunity for clients in rural areas, where there are few commercial activities, and the number of Financiera Confianza clients working in this activity rose in 2016.
- The cost structure shows enterprises with high levels of efficiency (even the smaller ones, with a cost structure of 62% over sales), although, since they take out loans that are relatively large compared to other institutions, the financial installments keeps margins (after the installment payment) to below 30%.
- Financiera Confianza clients do not display significant changes in leverage capacity as their *vulnerability* changes.

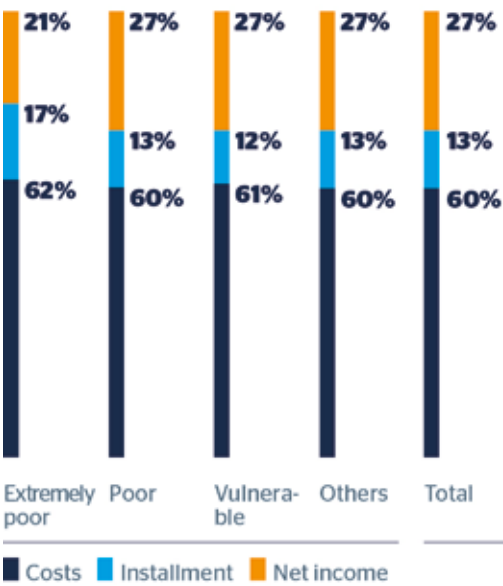
Average margins, sales and assets, by sector (6)



(6) Clients current as of 12.31.2016.

Source: Financiera Confianza, BBVAMF calculations.

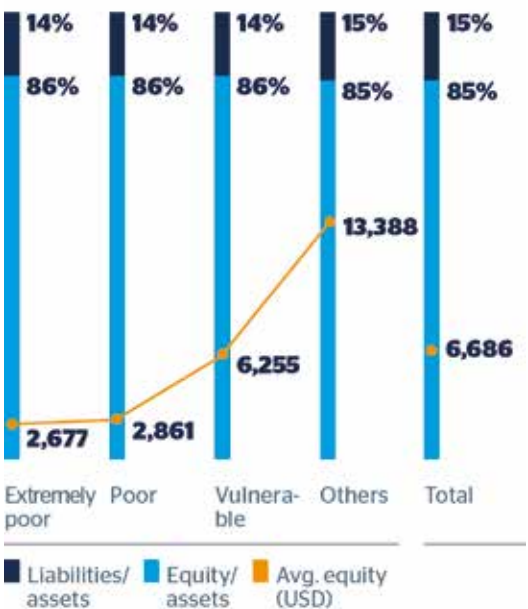
Expenses and margins as % of sales by vulnerability (7)



(7 & 8) Clients current as of 12.31.2016.

Source: Financiera Confianza, BBVAMF calculations.

Assets, liabilities and equity by vulnerability (8)



Source: Financiera Confianza, BBVAMF calculations.



# Our clients' development

Assets have grown notably, from an already high baseline, indicating that microenterprises are reinvesting and entrepreneurs are consolidating their wealth.



Credit client retention (by cohort) (9)

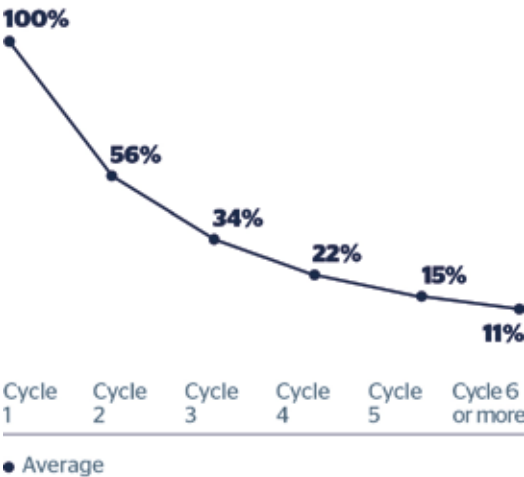


(9) Percentage of clients in each cohort still current at each anniversary. Averages from cohorts between 2011 and 2015.

Source: Financiera Confianza, BBVAMF calculations.

- On average, Financiera Confianza holds on to 57% of its credit clients after a year and this ratio improved between the 2014 and 2015 cohorts. Given the performance of recent cohorts, average retention is estimated to rise in upcoming quarters.
- After their first loan, more than half of clients take out another (56%). Successive cycles show a positive trend in loan renewals, with a gradual reduction in the number of clients who do not take out another loan.

Credit client recurrence (10)



Source: Financiera Confianza, BBVAMF calculations.

11% of clients sign up for six loans or more.

- Clients' average *per capita* net income performs positively in each *vulnerability* bracket. For clients in *extreme poverty*, the biggest growth takes place in the first cycle, when they nearly reach the lower threshold of the *poor* category. In the third cycle they cross over the poverty line.
- Clients classified as *poor* also show the most growth in the first cycle and, on average, only need one loan to rise above the poverty line.

(10) Clients served since 2011. Proportion of clients who, after an initial loan, take out another. The distance between cycles is the time between the disbursements of one credit and the disbursements of the next (the first one has not necessarily all been paid off). The distance between cycle one and two is 290 days, between cycle two and three is 274 days; between cycle three and four is 252 days, between cycle four and five is 230 days and between cycle five and six is 207 days.  
(11) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of one when it is the same as the poverty line.

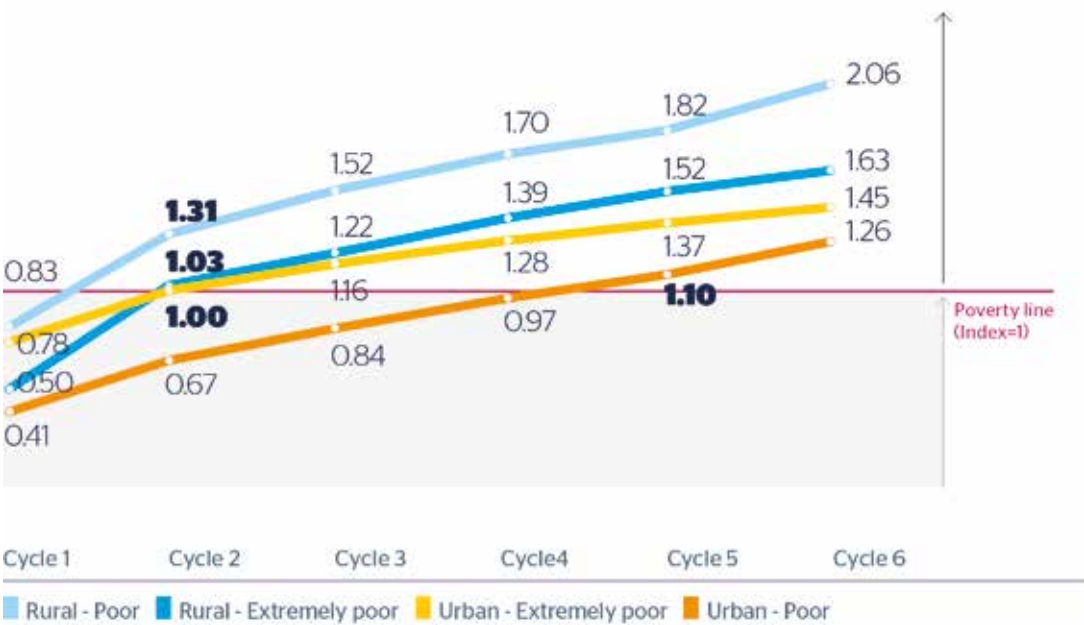
Per capita net income relative to poverty line (11)



Source: Financiera Confianza, BBVAMF calculations.

- With the first loan, growth in *per capita* net incomes in the rural environment is more marked than in urban settings: rural clients in *extreme poverty* perform more strongly than *poor* urban clients.
- Note that the situation at the outset shows differences: initial *per capita* net incomes compared to the national poverty line are higher for rural clients.
- These results indicate the need to develop financial inclusion strategies in rural environments, since they bring about major growth and help clients overcome poverty.
- All the microentrepreneurs' economic variables show sustained positive growth over time and cohorts.
- Above 10% in the case of sales and net incomes, and 29% in the case of assets.
- Since 2013 there has been a gradual reduction in initial sales and net incomes, consistent with the entity's focus on *vulnerable* segments.
- Assets grow particularly strongly (see *graph 15*), from an already high base, indicating high levels of reinvestment in the microenterprise and in turn, wealth consolidation.
- Compared to last year, growth rates have slowed a little, although on average clients have more assets: USD 13,479 compared to USD 11,798 in 2015 (see *graph 15*). Thus, value and growth continue to be created in microenterprises.

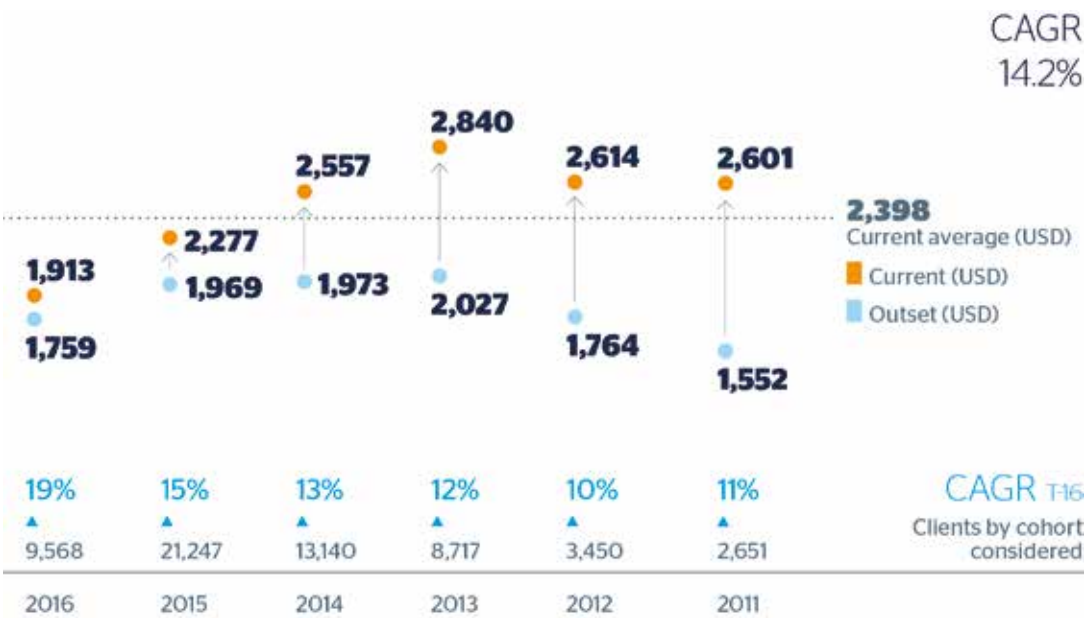
Per capita net income relative to poverty line by environment (12)



Source: Financiera Confianza, BBVAMF calculations.

(12) In the case of the sample of clients served from 2011 to 12.31.2016, classified by their situation at the outset, on their first disbursement, we show the change in the net income *per capita* at each cycle of the disbursement, relative to official poverty lines (by rural/urban environment and year of disbursement). Relative net income *per capita* takes a value of one when it is the same as the poverty line.

Average monthly sales (by cohort) USD (13)



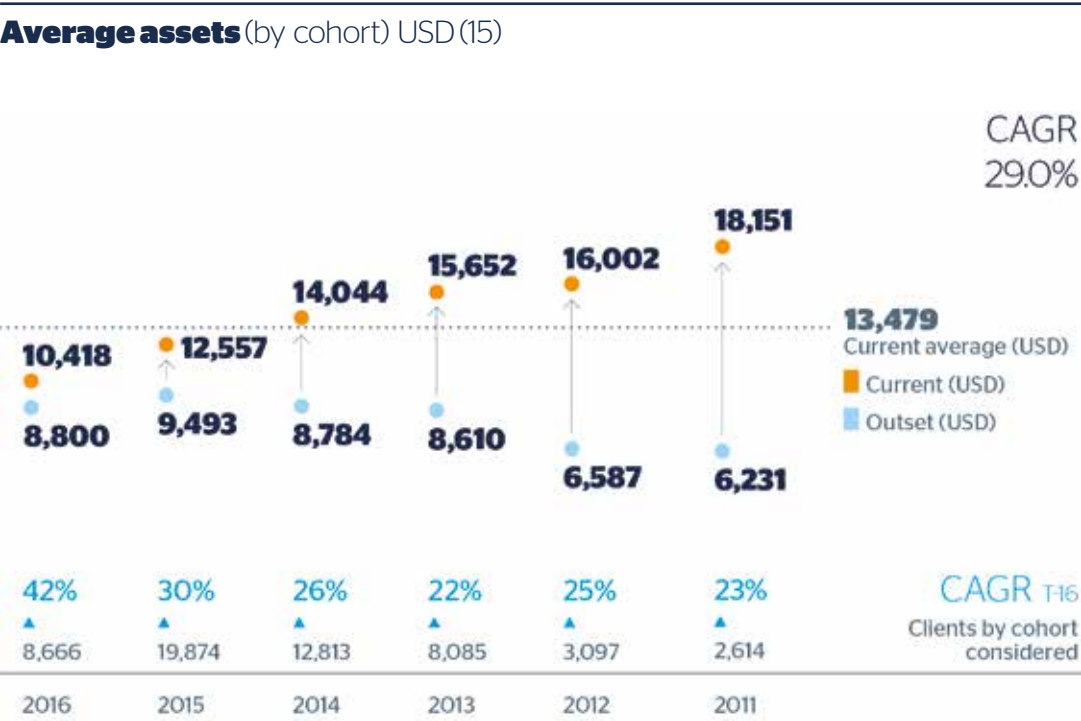
Source: Financiera Confianza, BBVAMF calculations.

Average monthly net income (by cohort) USD (14)



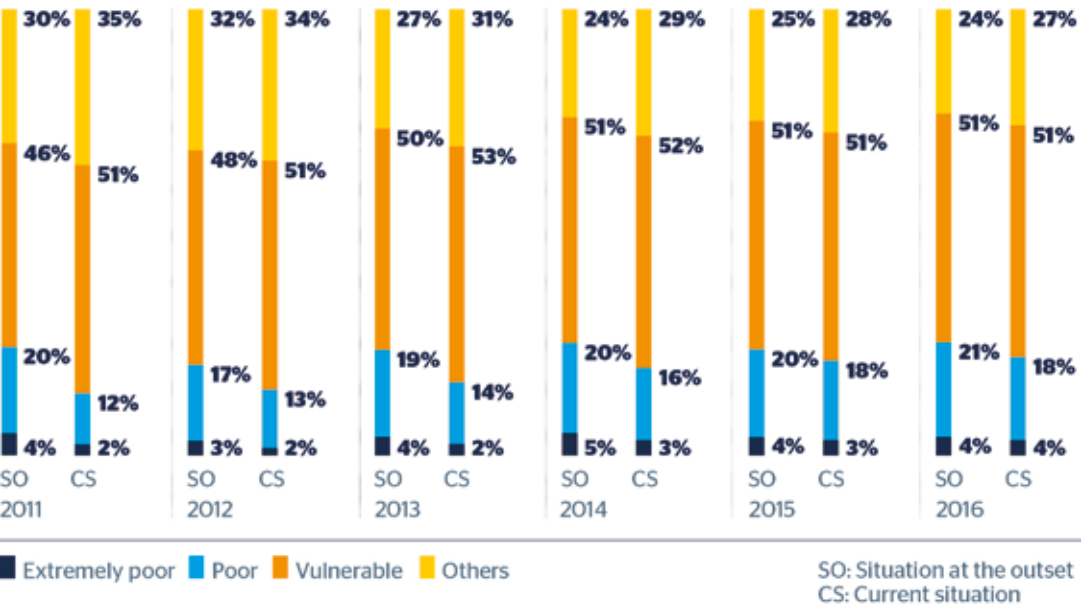
Source: Financiera Confianza, BBVAMF calculations.

(13 & 14) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.



Source: Financiera Confianza, BBVAMF calculations.

**Change in vulnerability levels** (16)



Source: Financiera Confianza, BBVAMF calculations.

(15) Data on clients current as of 12.31.2016, and who have made a disbursement in the last 12 months. Situation at the outset (data from their cohort year) and current situation (latest update) as of 12.31.2016. CAGR: Compound Annual Growth Rate.  
(16) Situation at the outset (SO) and the current situation (CS). Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.

The trend seen in other Group entities is confirmed here:  
**the older the cohort, the greater the proportion of clients, poor at the outset, who succeed in breaking through the poverty line.**

- During the second year of the banking relationship, 44% of clients classified as poor manage to overcome the poverty line and in subsequent years this percentage continues to rise.

(17) Clients who have been current at some point during 2016, and who have updated their information in the 12 months prior to the last time they were monitored in 2016. Clients who have been written off are not classified as having escaped poverty.  
• Escape from poverty: clients classified as *poor* at the outset of their relationship with the institution, who have broken through the poverty line, divided by the number of clients classified as *poor* at the outset.  
• Entry into poverty: clients classified as *non-poor* at the outset of their relationship with the institution, who have slipped below the poverty line, divided by the number of clients classified as *poor* at the outset.  
• Net reduction: escape from poverty, less entry into poverty.  
(18) Change in the average disbursement per transaction by length of time since the client signed up. The average for the 2011-2016 cohorts is shown.

**Net poverty reduction** (17)



Source: Financiera Confianza, BBVAMF calculations.

- There is also a high percentage of clients who do not succeed in stabilizing their incomes and fall back into *poverty* segments: after two years on average, the poverty segment increases by 25% due to clients whose *per capita* net incomes take them below the poverty line. Nevertheless, this percentage stabilizes after more time has passed.
- As relationships with clients mature, they begin taking out loans for bigger sums. Disbursements grow steadily year on year, although in recent years the increase over the first credit has slowed, with 2015 showing a less steep curve than previous years.

**Average disbursement per transaction** (by cohort) (18)



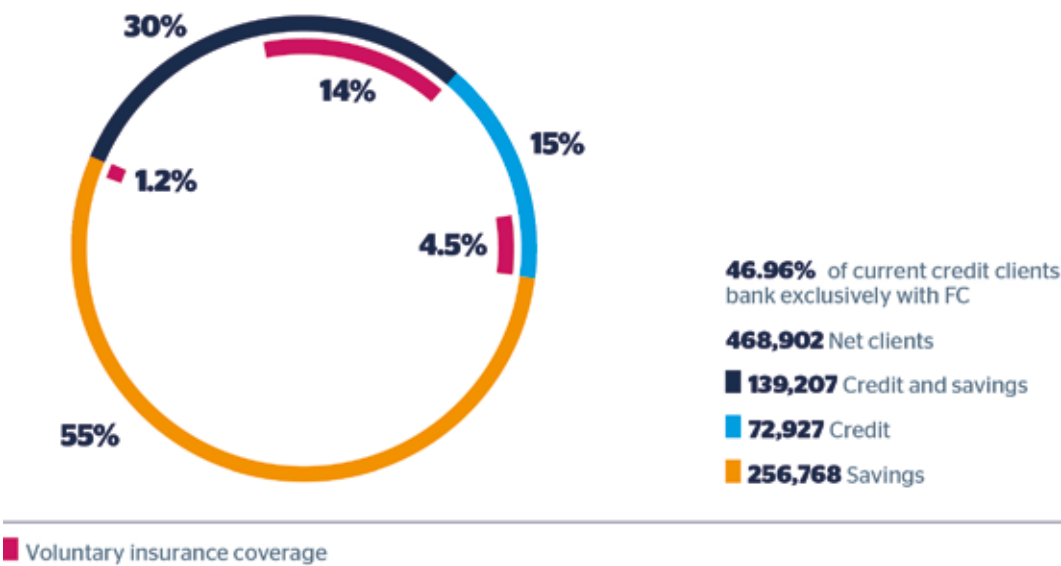
Source: Financiera Confianza, BBVAMF calculations.



Many of those with credit products also have savings and insurance products (14%), with this trend strengthening since 2015, when it was 10%.

- However, given the competitiveness of the sector and the extensive product offering, it is significant that 16% of clients have loans only (vs. 2% in Banco Adopem and 5% in Bancamía). Saving is still practiced by only a few: nationwide, 39% of the population said that they had saved during the previous year, but only 12% did so in formal institutions (see *Macroeconomic context*).
- Most Financiera Confianza clients have a microenterprise as a source of self-employment (altogether, 87% of clients have microenterprises without workers). As their situation becomes less *vulnerable*, companies begin to employ more workers. Thus, 19% of *non-vulnerable* clients have employees.

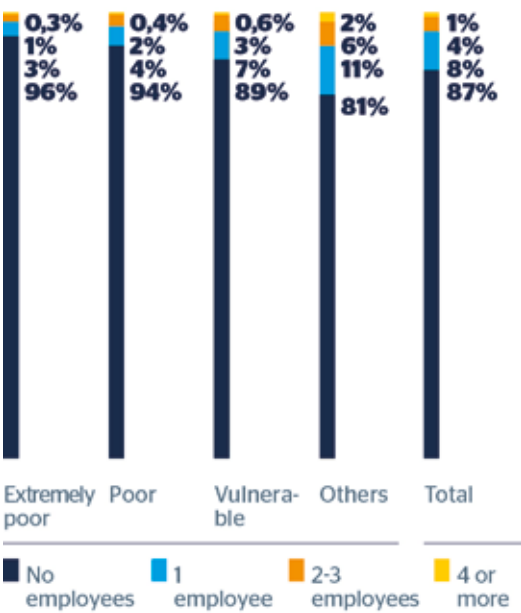
Client linkage by product type (19)



(19) Savings clients with a balance greater than PEN 1 or with account movements in the previous 9 months, are considered.

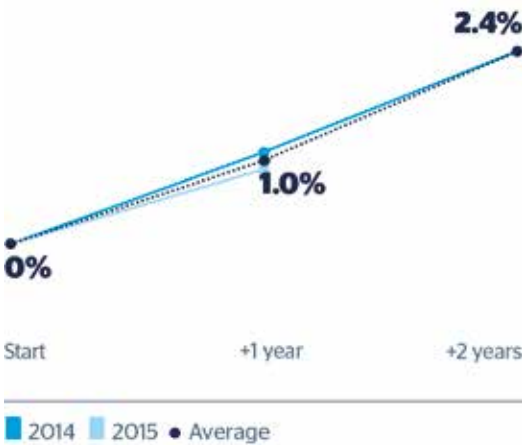
Source: Financiera Confianza, BBVAMF calculations.

Microenterprise employee breakdown (20)



Source: Financiera Confianza, BBVAMF calculations.

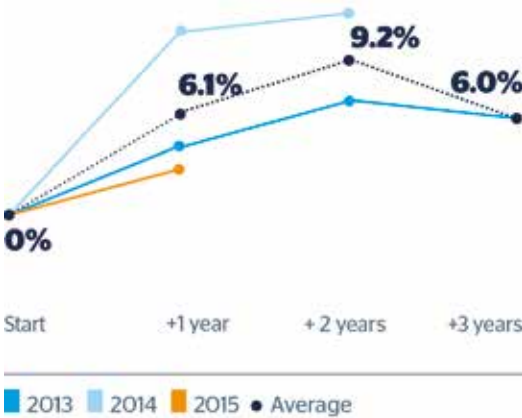
Job creation (by cohort) (21)



Source: Financiera Confianza, BBVAMF calculations.

- Due to information restrictions, only 2 years of employment data generated by Financiera Confianza clients is available; rates are expected to rise in the next few years.
- Financiera Confianza clients not only make improvements to their enterprises but also invest in raising their standard of living and that of their families. Thus, after two years with the institution, on average 9.2% of clients have improved their housing conditions.

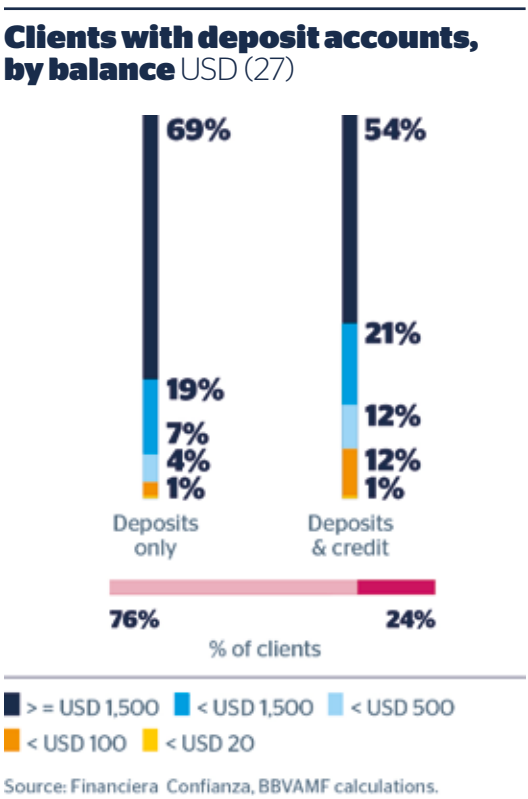
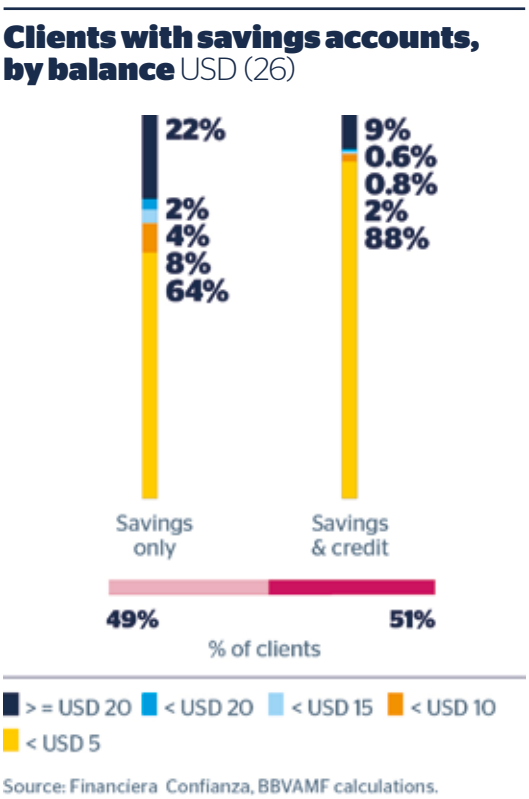
Client improvement in housing (by cohort) (22)



Source: Financiera Confianza, BBVAMF calculations.

(20) Number of employees in the enterprises of clients current as of 12.31.2016.  
(21) Increase in the number of employees in the microenterprise compared to the situation at the outset, for clients current as of 12.31.2016, in each cohort. Averages from cohorts 2014 and 2015.  
(22) Proportion of clients still current as of 12.31.2016 in each cohort (2013-2015) who have improved their housing conditions, from rented to owned, made home improvements (e.g. bathroom, water access, better construction materials) and/or increased the number of rooms since they registered at the outset. Average of 2013-2015 cohort.

- There is high growth in the number of savings clients in 2015 and 2016. Deposit clients account for 2% of the total and remain stable.
- 51% of clients with savings have had a loan, which is considerable given that clients who came to Financiera Confianza through a savings product (only) are less likely to take out a second product.
- Clients make few transactions in their savings products. Only 16% have more than three movements in their accounts in the last three months.
- Whatever the product type (savings accounts or deposits), the proportion of savings-only clients is high (49% and 76% respectively). They also have higher balances than those clients who also have a loan in Financiera Confianza.

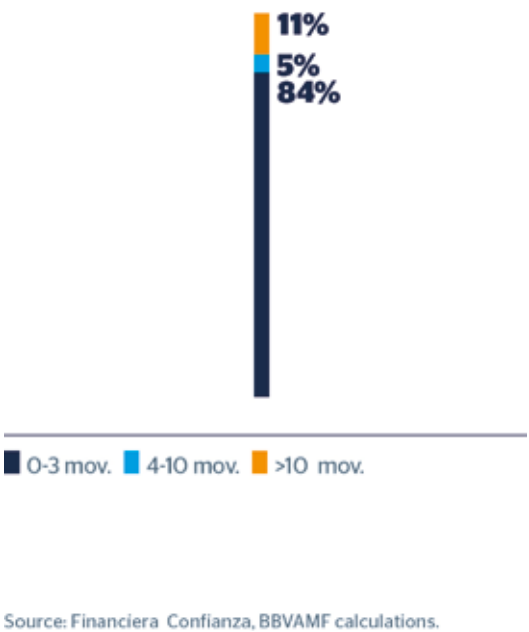


**Linkage of savings clients** (24)



(23) Clients with savings products (savings or deposit accounts) at the end of every year.  
(24) Clients with savings products (savings or deposit accounts) as of 12.31.2016.  
(25) Breakdown of clients with savings products (savings and deposit accounts) as of 12.31.2016, by n° of account movements in the previous 3 months, excluding administrative movements (interest payments, fees, etc.).

**Client breakdown by bank movement/transaction figures** (25)



**Profile of savings clients** (28)



(26 & 27) Breakdown of clients with savings products (savings accounts/deposits) as of 12.31.2016, by balance held as of 12.31.2016, differentiating between those who are only savings clients and those who have savings and credits (who have had a loan with the entity).  
(28) Breakdown of clients with savings products (savings/deposit accounts) at 12.31.2016, differentiating between those who are only savings clients and those who have savings and credit (who at 12.31.2016 had one loan or more with the entity).

- When looking at product types, a high proportion of savings accounts clients (the majority of savings clients) have very low balances, less than USD 5, although clients with deposits have higher balances.
- Savings-only clients have similar profiles to those who also have loans, although they are more urban, younger and better educated.
- Savings & credit clients are the real focus for the institution, since they have enterprises (this is not a requirement for savings-only products) and as such show signs of greater vulnerability, together with lower balances.



# What really matters

Thousands of stories with happy endings, stories that matter. Meet some of their main characters.

María Quispe no longer buries her savings in the yard of her house. She has learned that there are safer ways. Her dream is to buy a house so that she can rent it out. Rafael Velasque has bought himself a truck to transport his livestock for sale at farming fairs. His standard of living and that of his family has improved. Karina Lizbeth Mallqui solves her clients' problems, even if that means walking in the rain through the jungle.





## Shining a light on buried dreams

The training that Financiera Confianza gave María Quispe has enabled her to understand the value of saving, and taken away the worry that she might be robbed again of the money she used to bury under the yard of her house. Now her dream is to buy a house with her savings in order to be able to rent it out.

María used to bury her savings carefully under the yard of her home. She hoarded in a plastic bag the 800 Sols it had cost her so much effort to save. One day, when she went to hide the 200 Sols she had earned from her job in the fields, sowing the land for other smallholder farmers, she discovered that all her savings had disappeared.

Up until then, the misgivings of her husband Felipe Champi, who does occasional laboring in the local cemetery and on building sites, had prevented María from going to Financiera Confianza to formalize her savings. But after the theft, they attended the financial institution's training course to learn more about what it could offer them. María told Felipe that if they had taken

their savings there earlier they would have been spared the thieves. By the end of the presentation, he agreed.

Since then, María is one of thousands of Peruvians in the *Ahorro para todos* [Savings for all] program, run by the BBVA Microfinance Foundation in Peru so that low-income people in the remotest communities in the country can learn about the importance of saving to solve their problems. Pilar Quispe promotes this innovative Financiera Confianza program, which has taken financial education to indigenous segments in their native language, Quechua.

For María, Pilar is the face of Financiera Confianza: "I didn't know where to keep my money; I thought about giving it to

someone in my family. Then Financiera Confianza gave us training, through Pilar, their employee. At the beginning I didn't get it. By the third session, I started to understand".

Until she learned about the advantages of saving with Financiera Confianza in the formal economy, María used to keep her money in a plastic bag buried under the yard of her house.

**Name:** María Quispe.  
**Age:** 40.

**Business:** Works on the land as a day laborer, sowing potato, corn, quinoa, vegetables, beans and strawberries. Sometimes looks after houses.

**Location:** Rayampata (Cusco, Peru).

**Products and services:** Savings and financial education training.

**To highlight:** No education. Married, with three children of school age. Contributes to the family's income together with her husband, Felipe Champi, 42 years old, who did not finish primary school and has part-time jobs in the local cemetery and on building sites.

Scan the QR code and discover the story of María





Financiera Confianza  
Stories of achievement  
**María Quispe**

María is one the thousands of Peruvians of *Ahorro para Todos* [Savings for all], a program run by the BBVA Microfinance Foundation in Peru so that low-income people in the remotest communities can learn about the importance of saving to solve their difficulties.

“I am happy with this bank: before I just hoarded my money at home, now I’ve stopped worrying about it, I didn’t feel safe thinking that perhaps someone was stealing money from my home”, explains María, in the Quechua language.

Now she wants to build a house in Challa-bamba made of solid materials on land that she owns, so that she can rent it out. She has already saved part of the money and little by little she will carry on adding the amounts she need to build her dream. She would also like to open a business in Ray-ampata so that she doesn’t have to leave her children alone while she is working.

She is so convinced that saving has changed her life that she is encouraging her sisters to follow her example. “They’ve made up their minds now to start saving”, she smiles, satisfied. ■



María tells us how Financiera Confianza has made it possible for her to feed her whole family.



One of María and Felipe's three children..



# 500 Peruvian soles and a life

Wearing his *chullo* (the woolly Andean bobble hat) and at an altitude of 4,600 meters, Rafael Velasque is doing well with his farm, selling chickens and other livestock at farm fairs. Financiera Confianza's loans have enabled him to buy a truck, improve his farm and, most importantly, give his children a good education and standard of living.



Scan the  
QR code and  
discover  
the story  
of Rafael



Pisac is an Inca citadel, located on a high plateau surrounded by ravines. At an altitude of 4,600 meters, in the Valle Sagrado [Sacred Valley], it is a key attraction for many of the tourists who visit Peru. Rafael lives there, on the highest point of the mountains, in a simple wooden house with his wife, three children and his animals. Like nearly everyone in the Perca Community, he is a farmer and stockbreeder. Every day, on foot or horseback, Rafael walks the hills where his animals graze, keeping an eye too on the pigs, donkeys, guinea pigs and chickens that he rears and sells to maintain his family.

Rafael is a man who keeps to tradition, he wears a *chullo*, the typical hat with earflaps of the high plateaus knitted from alpaca wool,

and a near-permanent smile that transmits the happiness he feels about his life as it is now.

He tells us, speaking in the indigenous Peruvian Quechua language, how everything changed after his first PEN 500 loan (about USD 150) from Financiera Confianza. That money he was lent eight years ago was the start of an advancement that has enabled him to educate his three children and that has turned him into one of the best known residents on the mountain.

"I am making progress and thanks to that I am educating my children properly. I've been doing well up to now and getting ahead. My children have also raised their standard of living. I have made improvements to my farm, I have bought things,

I make investments and it has gone well", Rafael tells us, with gratitude, saying that since he has been a Financiera Confianza client, he and his family have lived better.

Over this time he has diversified his business and now sells his animals at fairs. Before, he used to guide them on horseback to the nearby villages or, when he could, sometimes renting a vehicle. But now everything has changed. Rafael has bought himself a truck with his most recent loan from the bank and transports his livestock much more comfortably. He even rents the truck out to his neighbors; that way he receives a little financial extra.

If anyone can testify to Rafael's work ethic, that person is Jessica Apaza. She is

In Quechua, the indigenous Peruvian language, Rafael explains how his life changed thanks to his first loan of 500 Peruvian soles, granted by Financiera Confianza.

the Financiera Confianza advisor who has handled his loans. She remembers that when she met him, Rafael had already saved up nearly half the cost of the truck he so wanted, but that he needed a loan to pay

**Name:** Rafael Velasque.  
**Age:** 59.  
**Business:** Farming and stockbreeding.  
**Location:** Perca Community (Cuyo Grande 2, Cuzco, Peru).  
**Employees:** None.  
**Total loans:** Three, for a total of USD 6,606 (PEN 22,500).  
**To highlight:** Educated up to high school. Married, with three children, two of whom are adult, with one of school age.



Rafael, wearing the traditional woolly Andean hat, with his wife.



Pisac, Rafael's village, 4,600 m above sea level, in Valle Sagrado.



The money he was lent eight years ago was the start of an improvement that has enabled him to educate his three children and that has turned him into one of the best known residents on the mountain.

for the rest. “We lent him the other half so that he could buy his pickup truck and get ahead. He is a very hardworking person, if the livestock doesn’t sell, he keeps chickens, he rings the changes depending on what works. For the Christmas market, he rears turkeys. He always pays right on time”, she says.

Rafael explains how he could not access the financial system, but that once he did, everything changed, which is why he encourages others to take this step: “I told my family about it, and other people, telling them to do as I did, to ask for a loan... with that you are going to do well, as I did. I recommended it to several people ... let’s hope they want to do it...” he smiles, watching over his animals as they graze on the mountains of Valle Sagrado.■



# “Walking through the jungle in the rain is no trouble if the goal is to help”

Her commitment to promote financial inclusion among the most vulnerable, those living in remote rural areas, has brought Karina Lizbeth Mallqui a lot of physical challenges. But her greatest achievement is one of a state of mind; her determination to help her clients solve their problems, and the satisfaction of seeing the successful outcomes of her involvement.

Karina Lizbeth left home in 2013 in search of a future. Worried that she wouldn't be good enough, she faced her first professional challenge in the Pichanaqui (Selva Central) branch of Financiera Confianza, where she also had the opportunity to enroll at the institution's training school.

But since the very first day, Karina, who is now 27, has successfully overcome all the hurdles she has faced. “When I arrived at the agency I had a very warm welcome from the Director and my co-workers, as well as some challenges”, she recalls. The first challenge was getting a license to drive a moped, a necessary preliminary if she was to get to the rural areas where the vulnerable entrepreneurs she was serving lived. “I have lived through amazing experiences visiting clients by moped; I've fallen off a few times, but nothing worrying”, she says, smiling.

## Experience gained

She remembers with affection an anecdote from her first job at Financiera Confianza, when she visited to assess a farming loan. A client asked for a loan to sow ginger. His land was on a hill that was so remote that she had to walk for three hours to get there. Karina still remembers how she was only able to walk the distance because the farmer warned her and lent her his wife's boots.

She also talks about how the support she received from the branch manager and her colleagues there was essential in helping her to learn the steps that have to be taken when assessing and granting a loan: “The training Financiera Confianza gave me was very good. It was an excellent school for me, with human values. They teach us to live the mission and vision in our jobs and, above all, they make us feel part of that mission in our everyday work”.

Another of the things this loan officer appreciates is how Financiera Confianza serves vulnerable entrepreneurs: “Rural clients don't have easy access to banking, they know little about the products and about the advice that is available to them when making their investments. It is one of the few institutions that looks after this type of people, because it has a footprint in areas where others don't. It is a function we carry out as part of financial inclusion”, says Karina about her day-to-day tasks.

In 2013 and 2014 Financiera Confianza supported coffee producers who lost their crops because of an outbreak of yellow rust, a mildew that attacks this plant. “It was a challenge to help clients one to one, talking to them and guiding them with the paperwork. I often gave up my lunch-break to give them a hand: my job is very intense”. Karina was happy to see that the results of her efforts were positive: the institution promoted the debt purchase of the affected farmers. “I feel proud of the work I did”, she recalls, getting a little choked up.

## New challenge

In 2015 a programed office rotation saw her move to the Centenario branch in Huancayo, where she is currently working. This location has enabled her to see more of her family while, professionally, setting her a different challenge, with a bigger and more competitive client market. Karina handles a wide range and number of matters on a day to day basis. She is in charge of winning new clients, marketing products to those who have paid off their loans, analyzing renewals, as well as tracking payment installments and recoveries. She is also responsible for making sure that the client journey within the institution is helpful in expanding their businesses, allowing them to improve their standard of living.

Karina's work and effort were rewarded in 2015 when she won *Best Sales & Loan Officer in portfolio management, Center 1*.

In 2016 she was promoted to *Senior Sales & Loan Officer*, an opportunity to grow professionally which also gave her more responsibility over the 360° management of the portfolio she handles, which for her is a “very valuable asset”.

Karina has not forgotten the entrepreneurs or their stories of achievement. She still remembers Pablo Quinto, one of her first clients while she was training at Financiera Confianza, a banana salesman from Yuri-naki. Pablo needed a loan to buy a vehicle. When Karina went to visit him to validate the loan it began to rain, and the journey through the jungle until she reached the area where Pablo had his crops started getting more and more difficult. It was a case of an enterprise which demonstrated hard work and the will to grow, so the institution did everything in its power to finance the project: “We managed to get there, despite the difficulties with the weather and we financed the purchase of his vehicle. Now he is a loyal client of Financiera Confianza and doesn't bank anywhere else”, says Karina proudly. When she is on holiday she still goes to see him. “I will carry on working to support people's financial inclusion until they achieve it, as part of their growth path to improve their standard of living”, concludes this lady, with all the peace of mind that comes from having a clear conscience and awareness of a job well done.■



Karina visits an entrepreneur's business.

# ‘Palabra de Mujer’: more guidance for vulnerable women in Peru

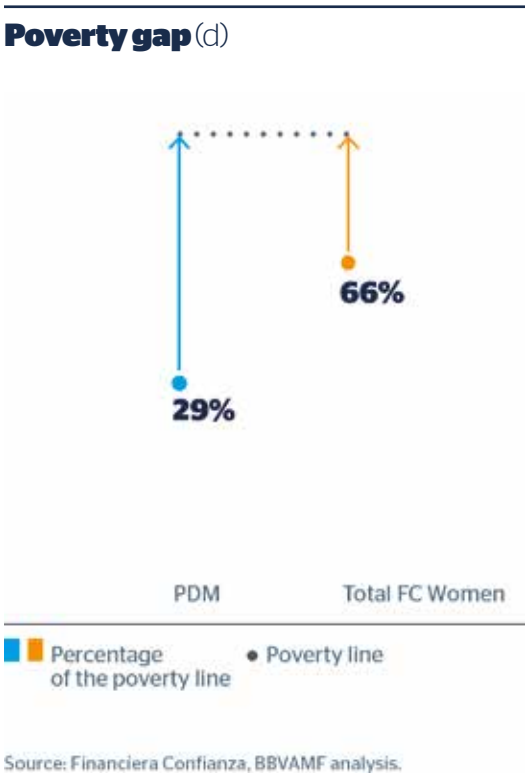
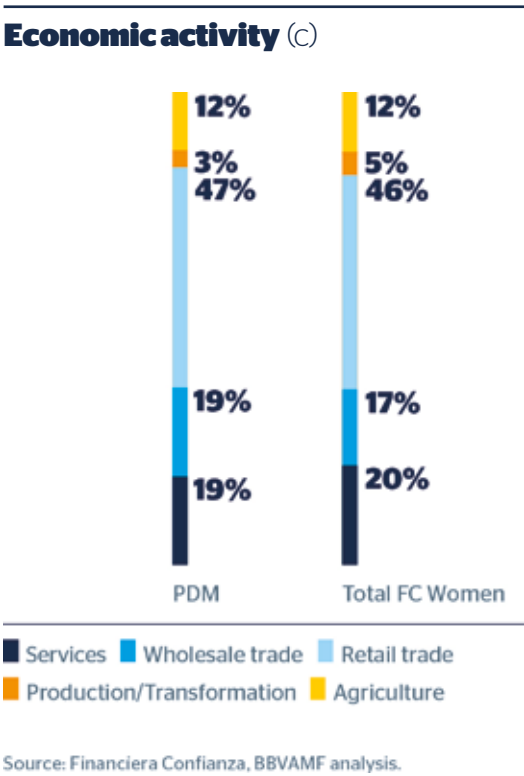
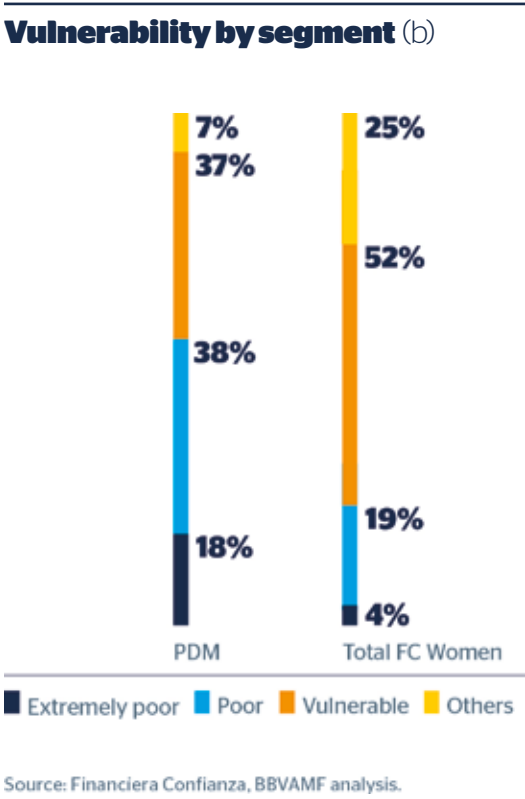
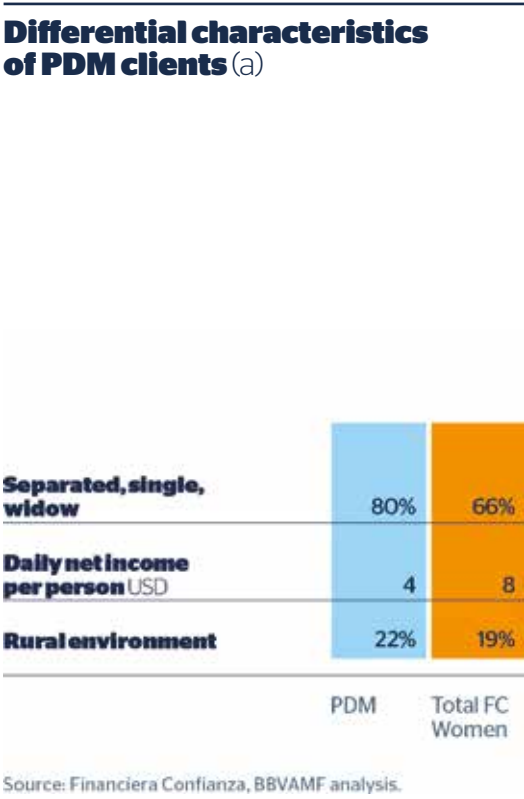
*Palabra de Mujer [Woman’s word]* is a group credit product specially designed for women in vulnerable situations in rural areas. The product promotes inclusion and financial training for women who on their own would not be able to access a loan. On average, 28% of the clients who have become banked through Financiera Confianza since 2014 have done so through *Palabra de Mujer*.

*Palabra de Mujer* (PDM) [Woman’s word] was launched in 2008, from the need to prioritize services to women in vulnerable situations by providing a productive credit to groups<sup>(1)</sup>. Since September 2016, this product has been available in 33 branches throughout the country (of a total of 101), in 10 administrative regions in Peru and to 30,323 clients<sup>(2)</sup> altogether (14% of the current portfolio). The product’s value proposal includes a training model for the members of the group about financial education matters, management of business and productive aspects, and the family.

### Supporting entrepreneurial women

The product has been specially designed for women<sup>(3)</sup> with low levels of educational

attainment. 24% of clients have primary education, at best, whereas the equivalent proportion among women clients as a whole is 17%<sup>(4)</sup>. 41% of them are under 30 (vs. 28% for all women clients) and most are single, separated or widowed (80% vs. 66% for all female Financiera Confianza (FC) clients. They are also the most vulnerable female clients, with 56% being classified as *poor* or *extremely poor* vs. 24% of total FC women clients. This is apparent in the poverty gap: the average net income for PDM women is further below the poverty line (29% vs. 66% for all FC women clients on average of the 100% needed to cover the cost of the basic shopping basket), and they need bigger increases in their incomes to get over the line. In order to achieve greater social impact, a significant component of this group loan is financial education.



(a, b, c & d) Data on clients current as of 09.30.2016.  
(b & d) According to the poverty line as set by INEI (differentiating between the rural and urban environments). Taking *per capita* net income (estimated as business surplus divided by the size of the household), the segment made up of clients whose *per capita* net income is over the poverty line, but under the threshold obtained by multiplying the poverty line by 3, is considered *vulnerable*.

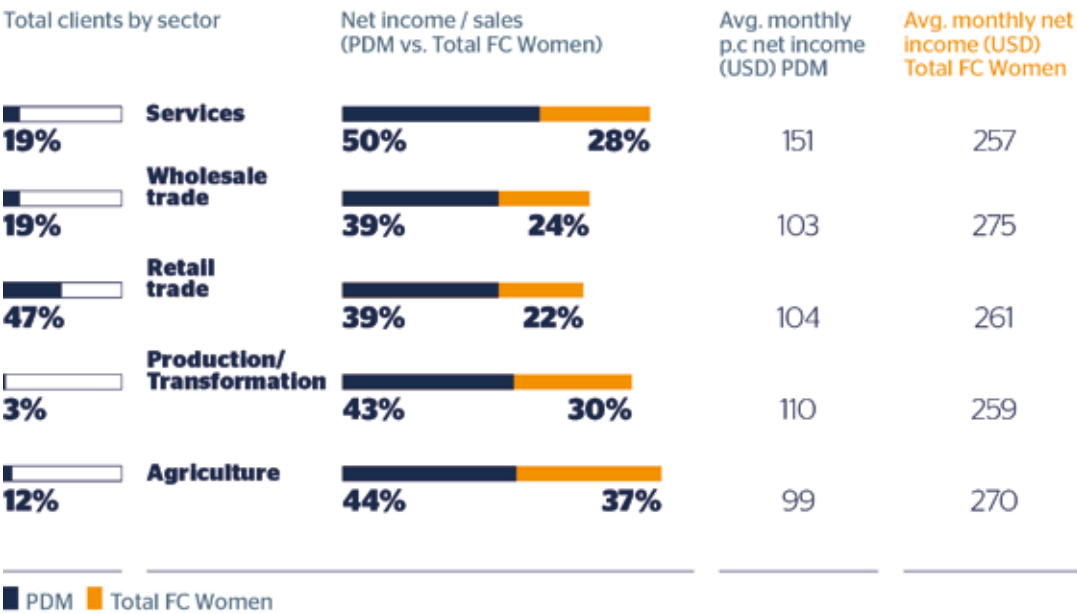


For PDM, as with the entire Financiera Confianza portfolio, *trade* continues to be its microenterprises' main activity (66%) followed by *services* (19%). Our understanding is that this is because this type of business has lower barriers to entry (investment in assets, training required, etc.) and they can easily be combined with other jobs, such as household tasks. PDM clients initially have lower sales figures (USD 394 for PDM clients vs. USD 1,392 for FC women as a whole). PDM clients' business are generally very basic and, in many cases, subsistence. For example, a large number of clients keep animals in their home; this is used as a way of saving against any expenditure, such as their children's schooling. Therefore it is essential to get as much return as possible from the small investment, and PDM clients enjoy higher margins

(43%) than the portfolio as a whole (28%)<sup>(e)</sup>. The *service* sector is the most profitable segment, with a margin of nearly 50% over sales.

PDM clients, who only account for 14% of all active clients, represent 31% of those classified as *poor*. This product promotes financial inclusion, particularly for women who on their own would not be able to access credit.

Average margins and net income, by sector USD (e)



Source: Financiera Confianza, BBVAMF analysis.

(e) Data on clients current as of 09.30.2016.

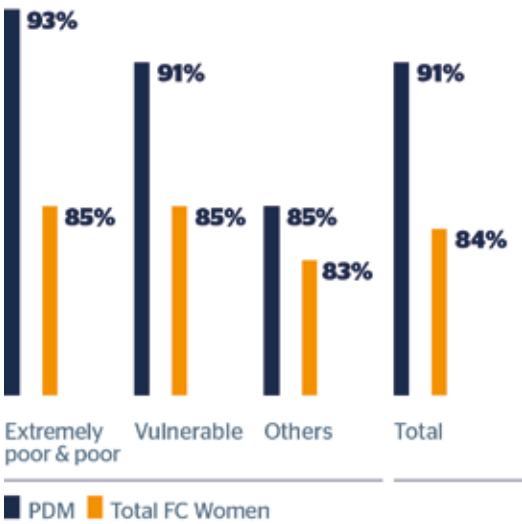
PDM clients and their relationship with Financiera Confianza

In general, women cannot access the formal financial system easily: 60% of PDM clients bank for the first time when they join Financiera Confianza vs. 42% of total clients. On average since 2014, 28% of the clients who have become banked through Financiera Confianza have done so through PDM.

An opportunity to access the financial system

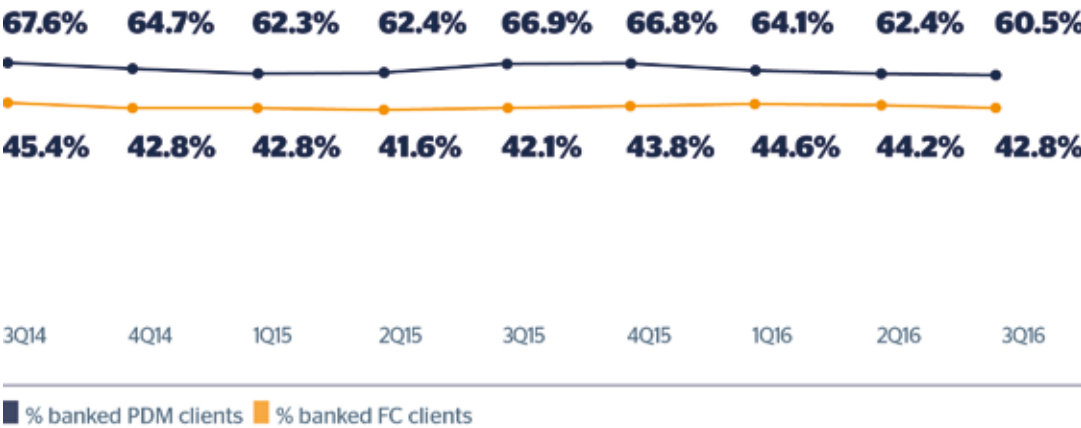
PDM encourages financial inclusion for women who on their own would not be able to access a loan. In comparison with the other female clients served by Financiera Confianza, equity accounts for 91% of their assets vs. 84% in the case of FC women clients as a whole. This difference is accentuated in poverty segments (equity accounts for 93% of PDM clients in *extreme poverty*, vs. 85% for all female clients). Furthermore, 58% have an exclusive relationship with Financiera Confianza vs. 46% for Financiera Confianza clients as a whole<sup>(f)</sup>.

% Equity/assets (f)



Source: Financiera Confianza, BBVAMF analysis.

Relationship with PDM clients (g)



Source: Financiera Confianza, BBVAMF analysis.

(f) Data on clients current as of 09.30.2016.  
(g) Banked: the first time that a client enters the financial system.

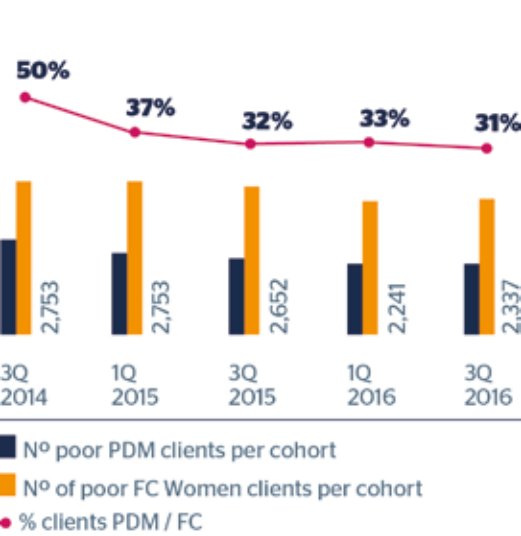
In fact, PDM clients, although they represent only 14% of the total clients, represent 31% of clients classified as poor.

The average loan of a PDM client is USD 345<sup>(7)</sup>, which is much lower than that of female FC clients as a whole (USD 1,546). This credit grows at an annual rate of 21%, rising from an average starting value of USD 204 to USD 531 after five years. At the outset of their relationship with Financiera Confianza, this sum is on average equivalent to 45% of their monthly sales (vs. 79% for all FC women clients). Nevertheless, clients renew this credit more frequently (see *Recurrence* graph below), this being one of the few products that is being renewed for more than six cycles.

Retention and recurrence

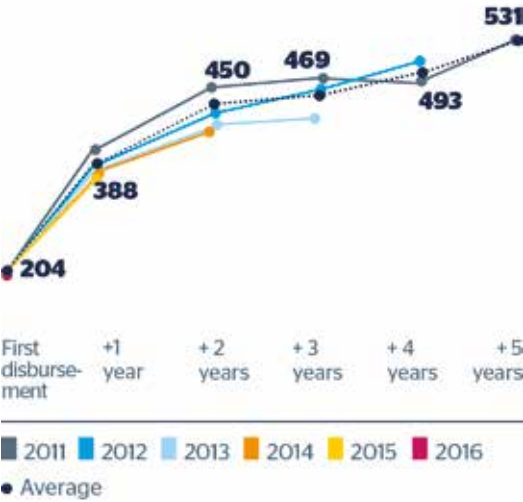
PDM clients are characterized by the fact that they stay with Financiera Confianza for six or more cycles, a pattern which this group lending product shares with Fondo Esperanza. On average, 49% of clients are still with the institution after a year, and 28% remain after two. These figures are similar to those for Fondo Esperanza (most of whose products are in the group lending category), where the retention average after two years is 29%<sup>(8)</sup>. While group lending includes people with the greatest level of vulnerability, its operating costs are high (PDM recurrence is always higher than the average for FC women) and it is more difficult to establish medium-term relationships.

New credit clients - classified as poor (by cohort) (h)



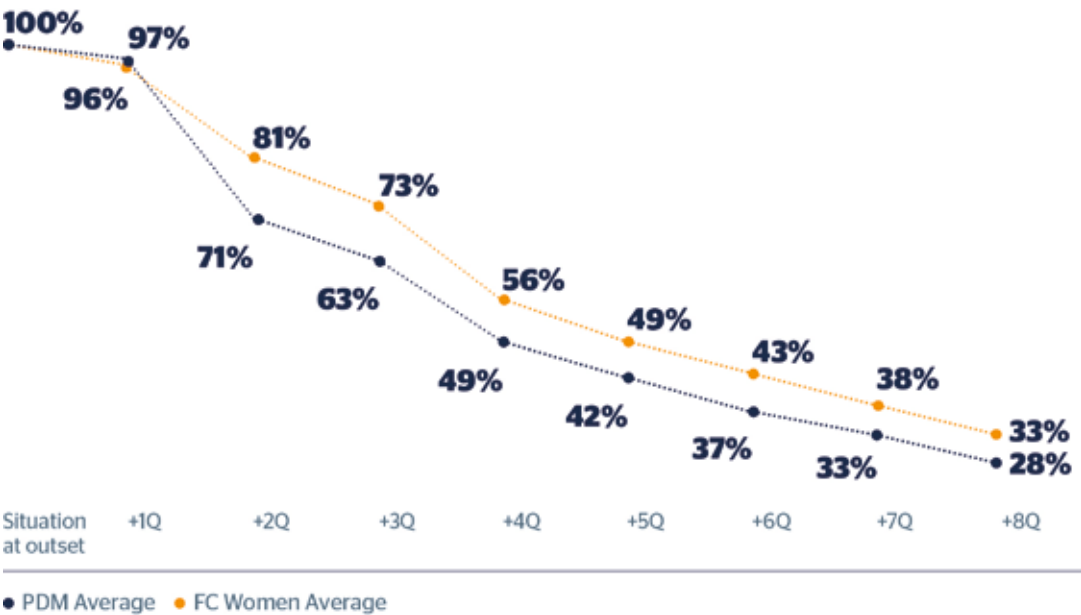
Source: Financiera Confianza, BBVAMF analysis.

Average disbursement (by cohort) USD (i)



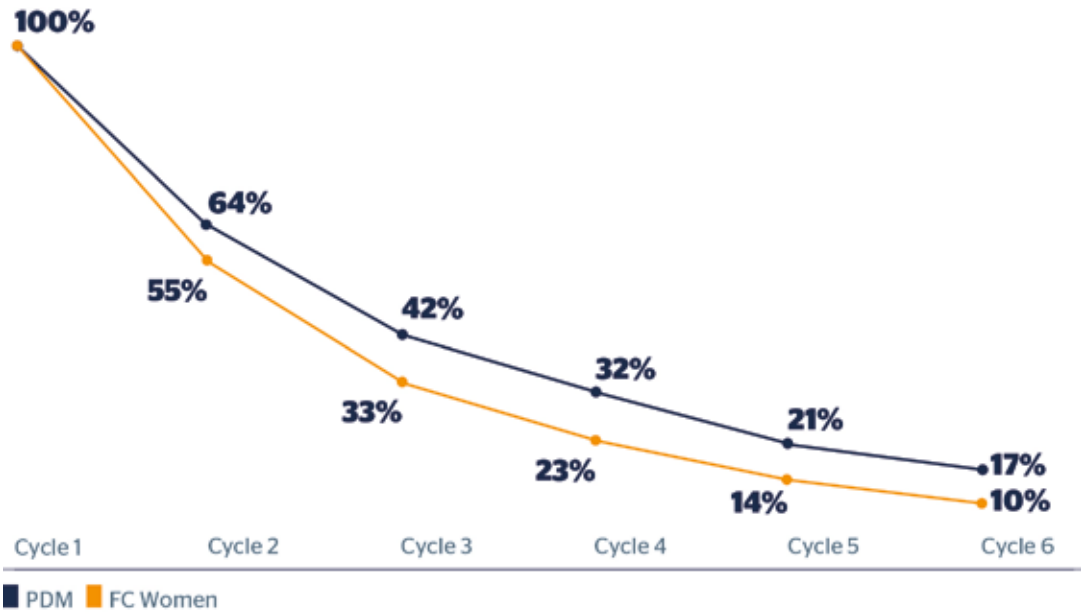
Source: Financiera Confianza, BBVAMF analysis.

Retention (PDM vs. FC Women) (j)



Source: Financiera Confianza, BBVAMF analysis.

Recurrence (PDM vs. FC Women) (k)



Source: Financiera Confianza, BBVAMF analysis.

(h) New clients (without previous loans) signed up over the year, classified as poor.  
(i) Average disbursement calculated as the disbursement made over the course of a year, divided by the number of transactions made by each client participating in the disbursement that year. Average of 2011-2016 cohorts.

(j) Percentage of clients in each cohort still current at each anniversary. The average is for the cohorts 3Q2014-3Q2016 is shown (both for PDM and for FC women as a whole).  
(k) Sample of clients served between 2011-3Q/2016 (flow). Per capita net income relative to the poverty line in the year of disbursement. Official INEI poverty lines in the rural and urban environments.



Financial education

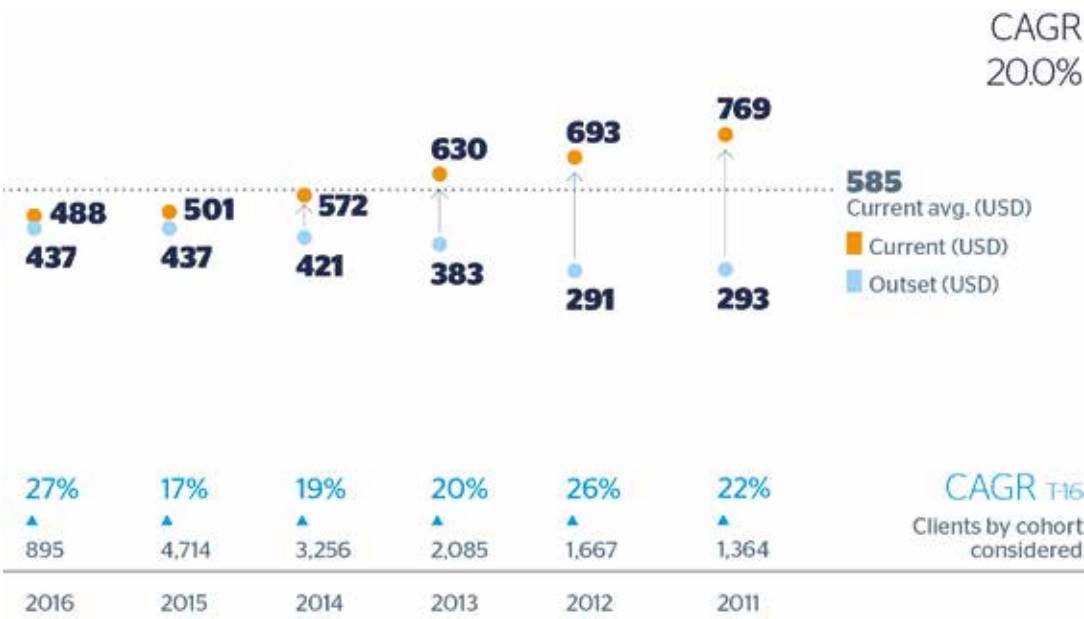
One of the differentiating factors of these loans is that the beneficiaries receive financial education from the loan officer at each monthly installment payment meeting; they are also given guidance to help their understanding of the financial system and promote saving in formal financial institutions.

Proven growth in sales and net incomes

With initial sales figures of close to USD 394 (1/3 of Financiera Confianza's average value, which is about USD 1,392), PDM clients' growth rates have been shown to be higher than those of FC women: 20% on aggregate, vs. 15% of all FC women. They are also remarkably consistent over time, with rates above 17% in all cohorts. After nearly five years, they manage to triple their sales figures (eg. in the 2011 cohort, sales rose from USD 293 to USD 769). Therefore, the principal challenge for these

On average, PDM clients take out loans of USD 345, which is a third of the average Financiera Confianza loan taken out by women, but their performance is similar or better: those in *extreme poverty* surpass the poverty line after four loans, on average; those in *poverty* do so after two.

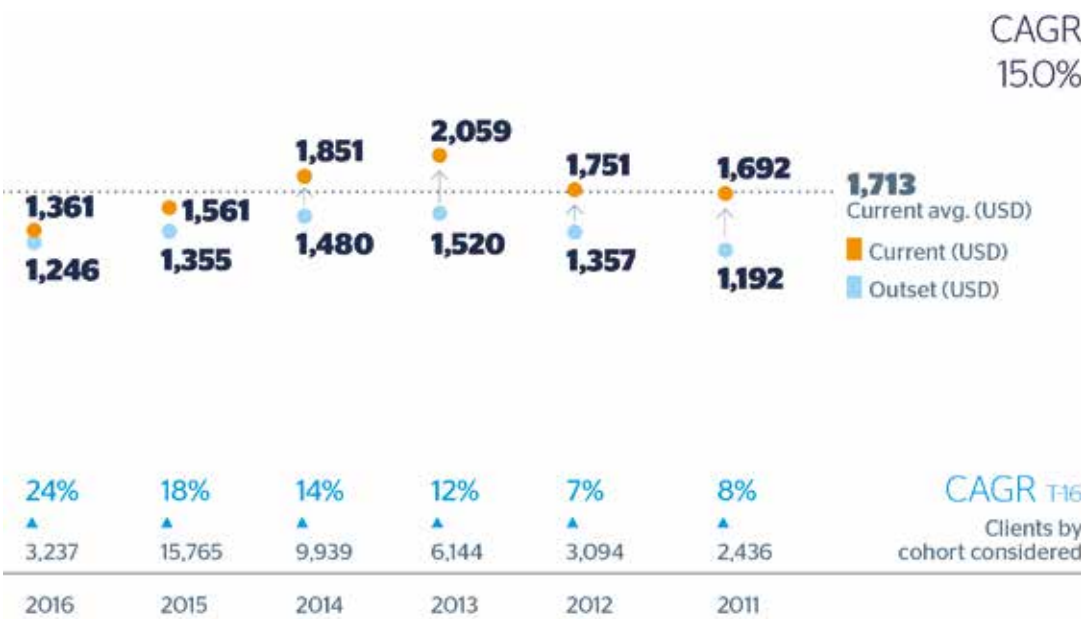
PDM - Average monthly sales USD (l)



Source: Financiera Confianza, BBVAMF analysis.



FC women - Average monthly sales USD (m)



(l & m) Data on clients current as of 09.30.2016, and who have made any disbursements in the previous 12 months. Situation at the outset (data in their cohort year) and the current situation (latest update) as of 09.30.2016. CAGR: Compound Annual Growth Rate.

Source: Financiera Confianza, BBVAMF analysis.



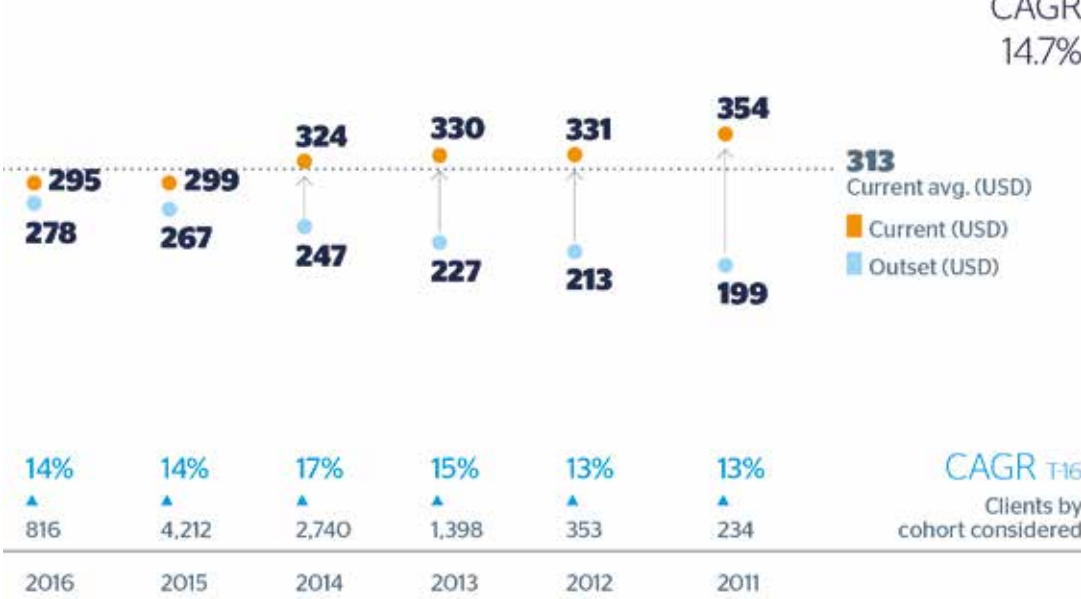


Financial education is a key tool in beating poverty.

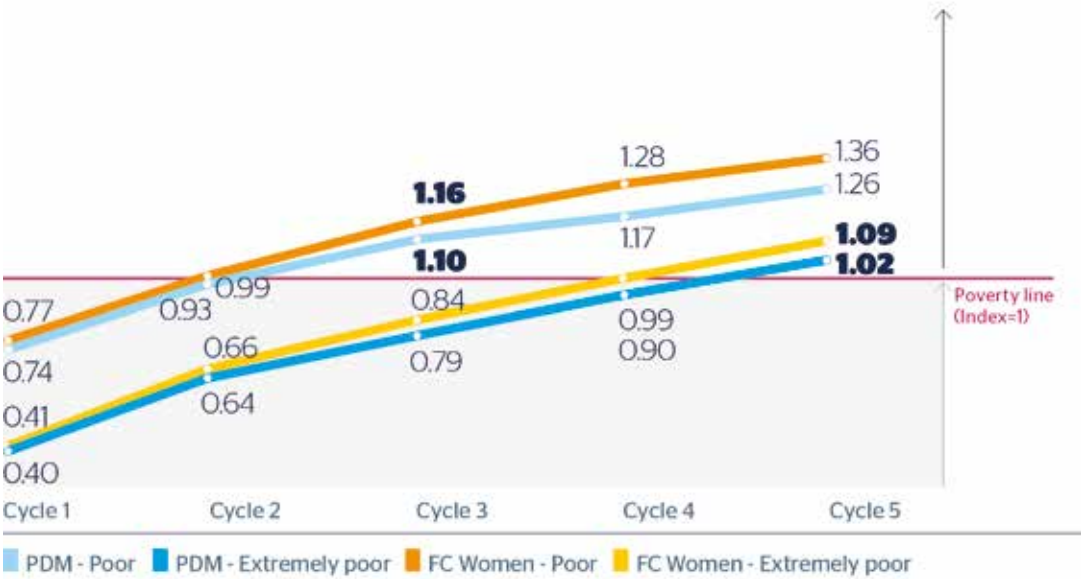
clients will be to generate net incomes that take them above the poverty line:

At the outset, PDM clients are slightly more vulnerable and their net income growth rates are slightly higher: 15% for PDM vs. 13% for FC women. Nevertheless, the positive trend of improvement in *per capita* net incomes remains: those in *extreme poverty* surpass the poverty line after four loans, on average; those in *poverty* do so after two. ■

PDM - Average monthly net incomes USD (n)



Net income per capita relative to the poverty line (o)



(n) Data on clients active as of 09.30.2016, and who have made any current (no active) in the previous 12 months. Situation at the outset (data in their cohort year) and the current situation (latest update) as of 09.30.2016. CAGR: Compound Annual Growth Rate.  
(o) Sample of clients served between 2011-3Q/2016 (flow). *Per capita* net income relative to the poverty line in the year of disbursement. Official INEI poverty lines in the rural and urban environments.

Notes (1) The groups consist of at least seven and at most 25 members. (2) Data on clients active as of 09.30.2016. (3) Women make up 99.6% of active clients; there are only 109 men in PDM. (4) Data on clients active as of 09.30.2016. (5) Monthly *per capita* net income before paying the loan installment. (6) Exclusivity: client who has a banking relationship only with FC in the formal financial system (not including informal institutions such as cooperatives). Data on clients active as of 09.30.2016. (7) Shows the amount disbursed during 2016 (Jan-Sept) divided by the number of transactions in 2016. (8) As of September 2016.



# ‘Ahorro para Todos’: encouraging formal saving among the most vulnerable

*Ahorro para Todos* (APT) [*Savings for all*] is a group lending product with a significant financial education component, designed specifically to serve women in rural areas who want to improve their standard of living. From its beginnings, APT has offered its products to over 2,850 clients and trained more than 13,700 people in financial issues.

*Ahorro para Todos* (APT) [*Savings for all*], which began in March 2014 as a pilot, addresses the need to serve vulnerable clients in rural areas, using financial education and a savings product designed specifically for this segment, to help to improve the living conditions of less advantaged population groups.

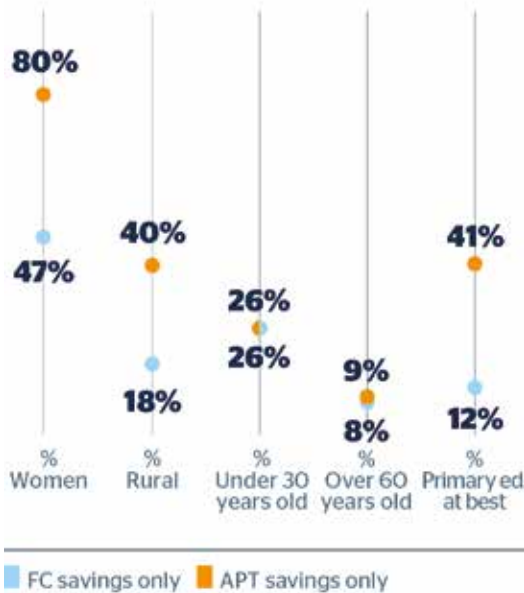
Since it was set up, APT has offered its products to over 2,850 clients<sup>(1)</sup> and has provided training on financial subjects to more than 13,700 people<sup>(2)</sup> in 52 communities in the regions of Abancay (since March 2014), Pisac (since August de 2015), Andahuaylas (since February 2016) and Urcos (since March 2016); all these regions are in the High Andes. The project has been funded by the Interamerican Development Bank (IDB), Citi Foundation and AusAid

(Australian government overseas aid agency). The program’s success has meant that it could continue as part of Financiera Confianza’s commercial product portfolio.

### A formal savings opportunity for vulnerable clients

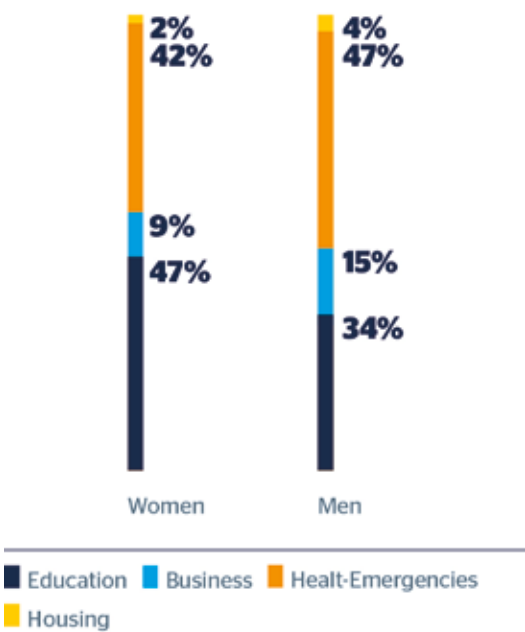
APT began as a program focusing on rural areas, for women who are heads of their household, and has expanded to all members of the household. At September 30, 2016, 80% of clients are women. Although only 40% are in rural areas, this is significantly higher compared to Financiera Confianza’s savings clients (18% of whom live in rural areas). In practice, most APT clients served perceive themselves as rural because of the barriers to entry they face. The loan officers travel

Savings clients profile (a)



Source: Financiera Confianza, BBVAMF analysis.

Savings target for APT clients (b)



Source: Financiera Confianza, BBVAMF analysis.

to outlying areas that officers from other institutions do not reach, serving clients who only speak Quechua, and who live in basic housing (often without electricity or mains water, etc.). Of these, 41% have primary education at best, against the 12% average for Financiera Confianza savings clients as a whole who only have this level of education. 35% work in *agriculture* and 28% in *trade*. In contrast with the overall profile for savings clients, APT focuses on the most vulnerable segments: women, rural locations and basic education.

Most APT clients save for education, mainly for their children, but also for themselves, and this applies particularly to the women, for 47% of whom education is the key goal (compared to 34% for men). The second

main reason is health and/or emergencies, which concerns more men than women (47% of men and 42% of women). Finally, men are somewhat more interested in saving for their home (4% vs. 2% of women) and their business (15% vs. 9% for women). (See graph b).

### Saving effectively works as an insurance for vulnerable clients.

If we look at the changes in more detail, the number of APT clients has grown on average by 36% every quarter, and to the end of September 2016 the program had 2,520 clients<sup>(3)</sup>. Most APT clients have savings accounts and only 3% have fixed term deposits.

(a) Breakdown of clients with savings products (savings/deposit accounts), as of 09.30.2016.  
(b) All APT clients served as of 09.30.2016 (including dormant clients and those with a balance of more than PEN 1.

APT clients with savings products (c)



Source: Financiera Confianza, BBVAMF analysis.

In response to the expressions of interest from clients, the portfolio has been completed with credit products adapted to this segment, such as *Palabra de Mujer* [Woman's word]. As a result, 14% of APT clients (342 clients) have an active loan. In fact, a strategy is being formulated to progress savings clients towards productive loans, without interrupting their learning process on developing a savings culture.

In general, for low-income clients, saving is a challenge. However, in the case of APT, 53% of clients who only have savings (which is 82% of all APT clients) have balances with over USD 5, a higher ratio than that of Financiera Confianza clients (64% of those with only savings).

APT clients save PEN 20 at a time, until they reach, on average, PEN 200 (USD 50-60) to meet an emergency or for higher expenses that have been planned for (eg. high school, Christmas presents, etc.). Thus, saving effectively acts as an insurance. APT has

(c y d) Clients with savings products (savings and deposit accounts) as of 09.30.2016.  
(e) All APT clients served as of 09.30.2016 (including dormant clients and those with a balance of more than PEN 1).

Linkage of APT savings clients (d)



Source: Financiera Confianza, BBVAMF analysis.

Clients with savings accounts Breakdown by balance (e)



Source: Financiera Confianza, BBVAMF analysis.

been instrumental in helping 14% of clients to keep a balance of over PEN 100 (this balance, moreover, has been held at over PEN 100 for the entire month), winning them the right to free life insurance with cover of up to PEN 2,500 for burial costs in the event of accidental death<sup>(4)</sup>.

Financial education, the key component

APT is a product that has been specially designed for low-income clients in rural areas, who use informal finance arrangements. A training system has been put together that, after several trials and subsequent modifications, is adapted to their needs. The financial education methodology that has been rolled out reaches rural clients by attracting their attention with interactive modules to transfer specific skills. These involve concrete, tangible teaching tools that are student-friendly for this particular audience. For example, puppets and theatre games to transmit the savings culture through play. These tools enable abstract financial concepts to be explained using simple stories that, crucially, are told in their mother tongue of Quechua: how the financial system works, what regulation is, how risk is managed, etc.

The result has been so successful that this training is being used for other Financiera Confianza products, such as *Palabra de Mujer*. The methodology must be adapted to local cultural requirements and, if it is well designed, has a positive impact on people and achieves its purpose of transmitting essential information about the financial system and how to manage household assets.

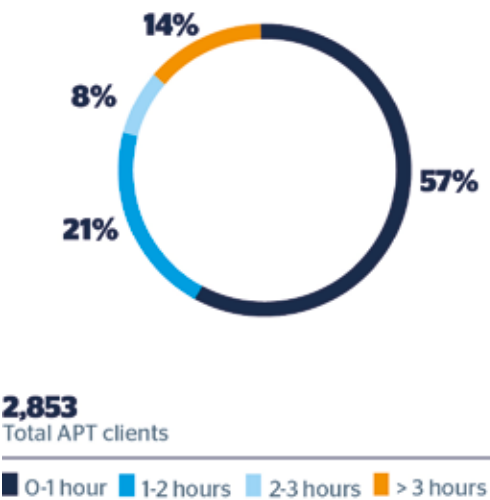
Financial education is the first barrier facing the client, but there are many more: of the people who received training in 2015, 22% acknowledge that they opened an account because of the security provided by the formal financial system. However, only 21% of clients trained through the program have subsequently opened a savings account.

(f) All APT clients served as of 09.30.2016.

A tested methodology for scalable financial education that can be replicated in all the agencies in the rural environment has been developed.

On many occasions, the client wants to make formal savings but decides not to open a savings account because the agents or branches are too far away. For those clients living in remote areas, the distance between beneficiaries and agents makes transactions time-consuming and expensive. 43% of clients take more than an hour to reach an agent.

Time needed by clients to reach the agency (f)



Source: Financiera Confianza, BBVAMF analysis.



FC/APT footprint (g)



FC coverage in the department capitals  
APT coverage in the department capitals

Source: Financiera Confianza, BBVAMF analysis.

This barrier is a constant risk to the program's expansion, so work is underway to get closer to clients, particularly those in rural areas where road infrastructure is still not good. On the other hand, distance sometimes plays an important role, since the fact that the money is not to hand means that it is only accessed when there is a real need.

The fact that a number of informal co-operatives in the areas where Financiera

The challenges for moving forward on saving by vulnerable clients are in improving education and promoting access to formal financial tools.

Confianza is operating have gone bankrupt has increased the feeling of uncertainty and lack of confidence among beneficiaries about financial institutions, as the number of people opening a savings account has fallen. On top of this is the fact that being a part of the financial system is a process of changing habits and attitudes, which generally take some time. That is why more effort needs to be made around training and creating awareness.

The challenge is to strike a balance between the security provided by the system, access to it, and the costs involved. Training activities to reinforce the role of regulatory bodies are being promoted, and that of the concept of money being safe when banked in savings accounts. The permanent presence of loan officers in the field to solve client issues, helps to generate more confidence in the formal financial system.

Financiera Confianza now has a tested methodology for scalable financial education that can be replicated in all its agencies in the rural environment, together with a sales methodology for getting closer to clients in the rural environment.■

Notes (1) As of 09.30.2016, refers only to savings clients. About 1% of all Financiera Confianza clients on that date. Refers to individual loans. Group loans are starting to be rolled out as well. (2) As of September 2016. (3) This includes those APT clients whose account balance is higher than PEN 1 and who made some kind of movement in the previous 270 days. (4) As of September 2016.





# Continued economic growth and poverty reduction

The Peruvian economy grew by 3.8% in 2016, underpinned by the performance of its primary sectors. Unemployment rose despite the expansion of the occupation rate and over the last year 221,000 people have escaped poverty. Nevertheless, 21.7% of the population remains poor.

The Peruvian economy<sup>(1)</sup> expanded by 4.2% in the first three quarters, driven by exports, which grew by 9.6%, although internal demand only rose by 1.1%, and this was mainly thanks to private consumption, which jumped by 3.6%, while private investment remained on a negative track, falling by 6.2% because of the contraction in investment in the mining sector. By the end of the year, the economy will have grown by 3.8%. This expansion is explained by performance in the primary sector, which grew by 9.3%, whereas other sectors expanded by 2.4%.

Within the primary sector, the *metal mining* segment shot up by 20.9%, *electricity and water* grew by 7.5%, while *fisheries* fell by 12.2%, because of the lower catch of anchovy for industrial consumption, due to the early closing of the first fishing season. The reduction in processing of fish meal

and oil, consequence of the lower anchovy extraction, meant that manufacture of primary products contracted by 2.5% over the period. This, taken with the 2.2% drop in other manufacturing, has brought in a negative result, a contraction of 2.3% in the sector over the year. *Trade and services* have edged up by 2.3% and 4.1%, respectively, but construction also shrank, by 2.4%.

Domestic demand grew by 1.2%, while exports expanded by 8.4%, and imports fell by 2%, making the external sector the economic driver in 2016. Consumption was the main force in internal demand, growing at 3.4%, unlike investment, which shrank by 5.6%, product of a steep fall in mining investment of 50% (end of the investment cycle in copper projects), although investment in remaining sectors expanded by 2.5%. Good performance in the external sector was reflected in a reduced current

account deficit, falling from 4.8% at the end of 2015, to 3.4% in 2016. Meanwhile, fiscal performance was slightly down, from a fiscal deficit of 2.1% of GDP at the end of 2015, to 3% at the end of 2016.

Inflation reversed the effects of the previous year's *El Niño*, which had driven food inflation up to 5.5%; this fell in 2016 to 3.6%, allowing aggregate inflation to fall too, from 4.4% in 2015, to 3.3% in 2016. Even though inflation is above the upper limit of the target range, performance in 2016 has kept the reference interest rate at 4.3%.

## Real GDP growth



Source: Peru central bank [Banco de Reserva del Peru].  
BBVAMF Research estimate.

## Labor market

Peru is one of the countries in the region where there has been a rise in the occupation rate, although this was offset by the even greater increase in the labor force participation rate, as a result of which there has been a spike in unemployment. After the Bahamas, Peru has the highest rate of participation in Latin America and the Caribbean, at 72.4%, and this has increased by 1.1 percentage points (p.p.) from a year earlier. The occupation rate is 69.3%, the highest in the region, and has risen by 90 base points (b.p.), so despite this improvement, the unemployment rate has also gone up, by 40 b.p., closing the year at 4.4%<sup>(2)</sup>.

The participation of waged employment in total urban employment continued to rise, from 54.4% to 54.9%. Even though Peru is also one of the countries with the highest proportion of informal employment in the region, with this accounting for 73% of all employment, informality has still fallen by 6.7 p.p. since 2007. Broken down by gender, informal employment has mainly fallen among women, dropping from 83.7% to 75.9%, a reduction of 7.8 p.p. Among men, informal employment fell by 5.9 p.p.

Urban employment continues to slow in an environment of weak private investment. The cooling of the labor market has been more pronounced in the cities in the interior, particularly in the north. Formal employment fell by 0.1%, the first reverse since early 2009. This is consistent with a context of tightening private investment. The contraction in urban employment was

The occupation rate has risen to 69.3%, the highest in the region.





greater in the interior. Thus, excluding Lima, urban employment fell by 0.3%, with a sharper reverse in the northern cities. Lima, on the other hand, which accounts for 70% of the country's urban employment, posted slightly positive rates.

Turning to the economically active population, 94% is in employment and the remaining 6% is actively looking for a job. Of the population in occupation, 61% is in suitable work, and 33% is underemployed; of the latter, 11% is underemployed in terms of hours, and 22% in terms of income. Suitable work has risen by 2.4% (28,400 people) in companies with 51 or more employees; whereas it has fallen by 1% (16,500 people) in companies of one to 10 workers. In companies employing between 11 and 50 people there has been no change.

50.1% of workers with suitable work are in companies with between one and 10 employees, 11.3% work in establishments employing between 11 and 50 workers, and 38.6% work in companies with 51 or more workers. Across the nation, 30% of employment is in the service sector, 28% in extractive industries (farming, fisheries and mining), 18% in commercial activities, 9% in manufacturing, 8% in transport and the remaining 6% in construction.

**Poverty and inequality**

Poverty<sup>(3)</sup> has fallen continually over the last five years, with a reduction of 9 p.p.; in other words, about 2.85 million people escaped poverty, of whom 221,000 have done so in the last year, bringing the national poverty rate down to 21.7%.

In rural areas poverty is proving harder to tackle, posting at 45.1%, although this is an improvement of 84 p.b. since the last time it was measured, whereas in urban areas it is 14.5%, an improvement of 79 p.b. In the Sierra zone, poverty stands at 32.4%, in the Selva region it is 28.9% and on the coast it is 13.8%, with improvements of 1.4, of 1.5

In rural areas the poverty rate stands at 45.1%, whereas in urban areas it is 14.5%.

and of 0.5 p.p., respectively. Within these areas, the rural Sierra is the worst off, with 49% of its population in poverty, whereas the region with the least poverty is the urban coast, at 16%, and the metropolitan area of Lima, with a poverty rate of 10.9%. In the country as a whole, around 6.7 million people are suffering from poverty.

The poverty gap, understood as the shortfall that is lacking to cover the cost of the basic shopping basket, (or expressed as a percentage of the poverty line), was reported as 5.4%, which is a 3.5 p.p. reduction over the last few years, meaning that there is a gradual improvement in the living standards of the population living in poverty. The biggest reduction in the poverty gap was noted in the Sierra region, where it now stands at 9%, a 70 b.p. reduction, followed by the Costa, with 2.8%, a 30 b.p. fall, whereas in the Selva poverty has stayed at 7.7%.

Growth in income accounts for at least two thirds of the fall in poverty, as well as for the gap between the average income of the poor and the poverty line, whereas the redistributive effect accounts for the remaining 26%.

94% of the population in poverty works in the informal sector. 58% of people living in conditions of poverty work mostly in extractive activities (farming, fisheries and mining), 23% work in the service and trade sectors, 7% in manufacturing, 5% in construction and the rest in the transport sector, whereas the population that is not poor mainly works in the service sector.



Turning to the population that is 15 years old or older, by educational attainment, 51% has managed only to study primary education in part or not at all, while 41% has secondary education and the remaining 8% went to university. 32% of the non-poor have reached tertiary education, which is an indication of the gap that still has to be closed.

The incidence of poverty in the Quechua, Aymara and native Amazon populations is 50%. Extreme poverty affects 4.1% of the population. In the last five years this indicator has fallen by 3.6 p.p., that is, 982,000 people were lifted out of extreme poverty.

Poverty (% total population)



Source: National Statistics & IT Institute (INEI).

Financial inclusion

Peru<sup>(4)</sup> has one of the lowest levels of financial inclusion in the region, as measured by having a bank account, in that only 29% of adults have access to the financial system, which is a 9 p.p. improvement from when last measured. According to this measurement, only 6.5 million adults are included, leaving around 16 million excluded from the financial system. In the last three years, 2.2 million people have been included in the financial system. In rural areas 23% of adults say they have an account in the financial system.

Schooling levels determine not only the poverty levels in Peru, but also the greater financial inclusion gap. 33% of adults with secondary education or more are financially included, compared to only 12% of those with primary education at best, revealing a gap of 21 p.p. 36% of higher income adults (the 60% richest) have access to the financial system, against only 18% in the lower income segments (the 40% poorest), bringing the gap to 18 p.p.

The main transaction medium is cash, with 60% of people receiving their wages this way; 99% of those paying for public services do so in cash, 92% of those paying school fees, and 98% of those receiving payment for farming products. In terms of products, 39% said that they had saved some money over the previous year, but only 12% had done so in formal financial institutions. 22% used the money to pay school fees, 10% as a saving for retirement and 12% to start, operate or expand a commercial venture.

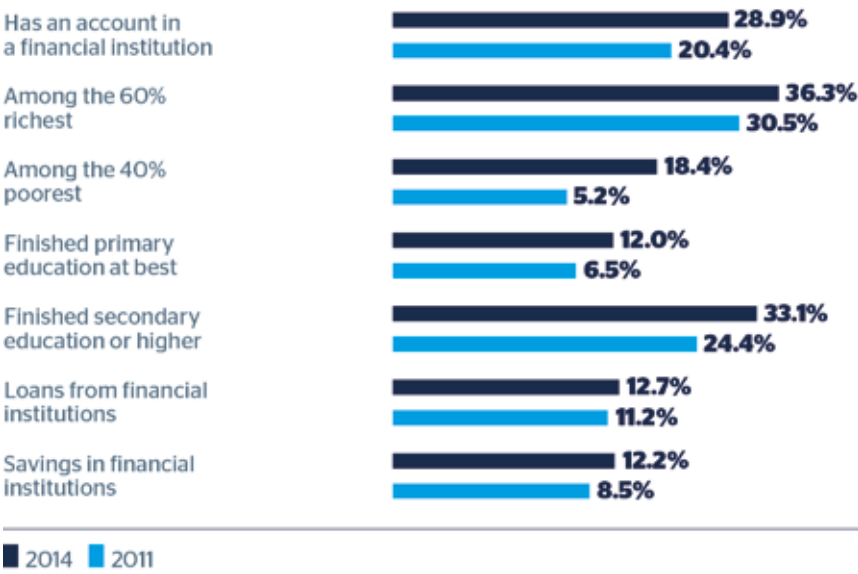
27% of adults applied for a loan in the last year, however only 11% went to a formal financial institution; 10% asked family members or friends and only 7% did so to operate, start or expand a commercial activity. When it comes to use, 86% of those with an account had a movement of some sort in their account last year. 54% had one or two movements a month in their accounts, whereas only 24% of adults carried out more than three transactions a month.

According to domestic sources - data from the financial services supervisory body, *Superintendencia de Bancos, Seguros y AFP*, when it comes to the usage of finan-

The most common medium for transactions is cash; 60% of people receive their wages this way.

cial services, in the last five years just over 1.65 million loan-paying clients joined the financial system, with the number of natural persons holding a credit topping the six million mark by December 2015. As a result, the percentage of the adult population with a loan jumped from 25% in the fourth quarter of 2010, to 31% in the fourth quarter of 2015. Over the same period, a little over 563,000 micro- and small entrepreneurs joined the financial system, and the number of MSMEs came to over two million by December 2015.■

Financial inclusion (% adults)



Source: World Bank Global Findex.

Notes (1) To the end of November 2016. (2) ILO. (3) National Statistics & IT Institute [Instituto Nacional de Estadística e Informática] (INEI). (4) World Bank Global Findex.