

Exploring barriers and opportunities of digital financial inclusion for women market merchants in Peru

1. Literature Review

The labor market crisis due to COVID-19 affected women disproportionately because they were being employed in the most vulnerable sectors facing this crisis: commerce and services (IDB, 2020), causing job losses or employment in challenging conditions.

Among these sectors traditional food markets - which play a central role in the livelihoods of both urban and rural women – have been radically affected, with critical income reductions due to quarantine restrictions (UN Women, 2020). In Peru, one of the countries hardest hit by the pandemic, food markets are classified as sources of contagion, limiting their activities or even closing them (ASBANC¹, 2020). In this context it was imperative to promote the adoption of digital financial tools, mainly payment services or electronic money, to reduce physical contact with the public, hence contagion (World Bank, 2020). Thus, ensuring safety measures and market rehabilitation to enhance productivity and profitability for the economic recovery of the female vendor's livelihoods was one of the priorities of the government, specifically of the Ministry of Production (PRODUCE).

On the other hand, the use of digital financial tools seeks to increase financial inclusion of vulnerable women, despite the persistence of a significant gender gap in the access and use of financial services in the country (Trivelli, 2020: 26). Between 2014 and 2017 the proportion of adults with at least one account in the financial system increased from 29% to 43%. Still, it is one of the lowest rates in the region (Global Findex, 2017). Furthermore, the growth in account ownership has not benefited all groups equally. Peru reaches a 17 points gender gap, while 51% of the men have an account, only 34% of the women have one (Global Findex, 2017: 23). Among the main barriers to accessing a financial account are the cost of financial services (59%), lack of money (47%), and lack of trust in financial institutions (38%) (Global Findex - Database, 2017)

The pandemic caused a significant increase in digital financial tools. While in 2017, 25% of Peruvians made digital payments - although this percentage decreases to 18% for women -, in 2020 around 28.2% made some immediate transfers or payments by telephone and/or an electronic wallet. Surprisingly, this channel was mainly used by women (28.8%). Moreover, usage increased when they already had an account (45.1%). Based on this evidence, this digital financial mechanism gives us the hope we can improve women's financial inclusion, despite gender gap persistence (Trivelli, 2020).

The National Financial Inclusion Policy (PNIF) was recently (2019) approved, in which among its measures the “Use of digital financial tools for businessmen and businesswomen” is proposed (Measure 1.7). The creation of financial training mechanisms with a digital and gender focus for MSMEs to strengthen - in an articulated way - their financial capacities according to the technological availability in the territory is proposed to achieve this. As such, the business and digital capacities of the MSMEs will be strengthened. In addition, those spaces will serve to identify challenges and propose solutions that favor the adoption of these payment methods (PNIF, 2019: 24).

Within this framework this research aims to identify the barriers, risks and innovative solutions for adopting digital financial tools with a gender-responsive approach in MSMEs, specifically for markets' women merchants. This research will explore the socioeconomic effects of the benefits and barriers to digital financial inclusion by adopting digital wallets and the complementary effects of digital

¹ ASBANC: Association of Banks of Peru

financial education in female market merchants. Hence these women vendors would be more likely to use digital wallets and improve their savings skills, considering accessing loans and other financial products to increase the competitiveness of their businesses. Digital financial inclusion would moreover constitute a risk mitigation measure against unexpected expenses resulting from future crises, reducing their probability to become poor.

There is a growing body of literature on the importance and impact of digital finance services (DFS) in the financial inclusion of women and marginalized populations, including the elderly, the less educated, owners of small and medium-sized enterprises (SMEs). Research has shown that digital financial services, such as mobile, electronic money, can be more convenient, affordable and enhance financial inclusion, especially for those unbanked and underbanked (David-West, Iheanachor, & Kelikume, 2018; Osabuohien & Karakara, 2018; Morgan, Huang & Trinh, 2019; Arora, 2020; Soekarno, Yudha & Setiawati, 2020). Between the positive impacts of DFS on women, the research found increased financial resilience and saving (Hendricks, 2019) and economic empowerment and labor market outcomes (Romana & Spencer, 2016; Suri & Jack, 2016) and specifically for women-led businesses, access to digital financial services “can take advantage of new sources of credit, enhance how new and old suppliers (provided by fintech and FSPs) can evaluate and build alternative credit scores to gauge and learn about their repayment capacity” (Trivelli et al., 2018: 101).

However, recent literature has taken a critical and ethical approach to women digital financial inclusion services regarding their risks, barriers, and structural constraints due to socio-economic inequality factors (Aziz & Naima, 2021; Kofman, 2021), patriarchal structures (Mustafa et al., 2019), the lack of gender-sensitive approach (Kulkarni & Gosh, 2021), that need a multistakeholder (employed by governments, financial services industry, large businesses and international donors and funders) approach to be addressed (Sekantsi, 2019).

In Latin America, and specifically in Peruvian literature in recent years, there has been an emergence of fintech companies due to the growth of this ecosystem, exacerbated by the pandemic (Vodanovic, 2019; Herrera, Lambert, Ramos & Torres, 2021). Studies propose fintech as a tool to promote the financial inclusion of people and businesses excluded or underserved by banking, such as women and MSMEs (Fernandez, 2018; Nuñez & Sifuentes, 2019; Huaroc, 2020; Alfaro, 2021). Nevertheless, they have not focused on understanding the risks and challenges of these digital approaches to financial inclusion, which is crucial to prevent the effects of future crises.

This research will contribute to Peruvian literature on digital financial inclusion as to nurture public policies by offering a significant critical overview and a new perspective on digital finance inclusion and mechanisms, addressing the current barriers, potential drivers and challenges of these digital approaches in female market merchants.

2. Research question

Digital financial inclusion must consider the restrictions coming from both, demand and supply. Nevertheless, these restrictions created by the immensely speeded-up increase of digital financial tools' usage during COVID-19 have not been analyzed in depth yet in Peru. As addressed in the literature review, these restrictions mainly consider data accessibility for the usage of digital tools from the supply view. There is still a barrier of fear and mistrust to overcome from the demand as to ensure these new financial clients engagement over time, primarily women (Trivelli, 2020).

Overcoming these barriers - from demand and supply - will require a complementary strategy of financial education (ASBANC, 2021), especially of the demand side, which needs to believe in all the

benefits financial inclusions offer in the short and long term. For the supply side, it is essential to engage with flexible financial institutions capable of understanding these socio-economic and socio-emotional barriers and satisfy these new clients with products adapted to their needs and digital skills.

This research will center its questions on exploring: what are the main barriers for financial inclusion Peruvian women market merchants after a rapid increase of digital wallets usage, what exact role of financial education should consist of and what are the possible socioeconomic benefits for this women from the use of digital financial tools and education?

3. Research aim: Public Policy Recommendations for Digital Financial Inclusion

UNDP's latest Regional Human Development Report (IRPH) recalls that LAC is caught in a persistent trap of high inequality and low growth. To overcome this situation, LAC countries need universal, inclusive and fiscally sustainable social protection systems that promote growth. (UNDP, 2021). Even more, the report highlights that labour markets should be reinforced by access to universal social security systems. Within this context to accelerate the labor market formalization it is a priority, especially of SME, which is recognized also being the main source of employment for the Peruvian population.

It is proven that the “adoption of digital financial tools can motivate and make it easier for informal firms to register and operate in the formal economy” (World Bank, 2020: 14), understanding insertion of financial tools as a type of improving formality. For instance, digital sales are more accessible to track than cash sales; digital payments make paying taxes easier. “Further, electronic payroll technology can support the formalization of labor arrangements between employers and employees. At the same time, the use of digital payment systems can help informal firms begin to establish a credit history, potentially opening the door to traditional financing” (World Bank, 2020: 14-15). In addition, formal borrowing was already the most common source in Peru (Global Findex, 2017: 76). Formalizing through the financial system will increase their chances to access credit.

This research not only seeks to identify the new barriers for financial inclusion taking into account the COVID-19 impact upon vulnerable entrepreneurs (such as women market merchants), but also to understand the contributions of financial inclusion to the increase of formalization and to provide recommendations for public policies that include the role of financial inclusion in improvements of the social protection system.

This research aims not only to identify the new barriers for digital financial inclusion after COVID-19 context among vulnerable entrepreneurs (such as women market merchants) but also to understand it this contributes to the increase of formalization and to provide recommendations for public policies that include the role of digital financial inclusion for improving the social protection system.

The findings of this research will nurture the different public policies and/or programmes concerning digital financial inclusion developed and implemented by the Ministry of Finance, the Ministry of Production and the Ministry of Labour. All these actors already work in close collaboration with the UNDP Peru Office and have a close relation with the Institute of Peruvian Studies (IEP). Indeed, nowadays UNDP Peru, in alliance with the Ministry of Production and a multi-actor platform that includes private companies and actors from the public sector, civil society and the academy, is implementing the “Innovate your Market” program that seeks to achieve the digital transformation - including digital financial tools - of markets' merchants, especially women, to contribute to its socio-economic recovery after the pandemic. Within this context, the research will provide useful information to the Digitalization and Formalization Office of the Ministry of Production (PRODUCE) to

improve its digital inclusion policies and programmes; and will provide concrete information to upscale and replicate current pilot initiatives at national level.

4. Research methodology

This research will collect primary sourced quantitative and qualitative data and reinforce secondary sourced data and insights.

This research will explore the main new barriers for digital financial inclusion for women in traditional food markets, then the role of financial education to sustain engagement with digital financial tools and finally, its correlation with the short-term and long-term benefits such as income increase or engage with other financial product through the usage of digital financial tools.

Quantitative Data: Researchers from The Institute of Peruvian Studies (IEP) will design and implement 100 to 150 surveys to identify the specific characteristics of women market vendors in 15 markets in the Metropolitan Lima area and three regions in Peru (Cusco, Trujillo and Cajamarca).

50% of these women will be reached by an alliance with UNDP's program "Innovate your Market", implemented by the UNDP office in Peru with the support of a multi actor platform. This program already works on improving digital capabilities with women market vendors, including digital financial tools. There will be a comparative analysis with the other 50% located in those food markets but who are not participants of the program "Innovate your market".

Qualitative Data: Through the alliance with UNDP, UNDP Accelerator Lab will implement sessions through their powerful collaborative tool, [Future Now](#), to identify the main insights about financial inclusion, barriers, opportunities and risks.

Secondary Data: Through the alliance with the Association of Banks of Peru (ASBANC), it will be able to access data about the immersion of digital financial tools, specifically the three digital wallets in Peru: [Yape](#), [Tunki](#) and [BIM](#).

The IEP will use their selective access to in-house research and other research institutions from Peru and the LAC region.

Data about other fintech tools might not be available and/or would be difficult to obtain.

5. Work Plan and research team

This research will be implemented in 5 phases including seminars and feedback sessions with IDB team and the "Innovate your Market" platform, including the Ministry of Production.

- **Phase 1 (January 2022):** Preliminary paper work, contract and adjustment of workplan.
- **Phase 2 (February to March 2022):** Presentation of research proposal and methodology. First discussion seminar. Incorporate feedback into proposal and methodology.
- **Phase 3 (April to June 2022):** Data and methodology details, including Gantt structure in coordination with allies, and data collection processes update. Presentation of first draft.
- **Phase 4 (June to August):** Data collections and written proposal of policy recommendations. Second Draft presentation. Second Discussion Seminar with Technical Directors.
- **Phase 5 (September to December 2022):** Summary of policy implications, data processes and research paper final draft (following IDB Manual of Style for working papers).

Research Institution:

The Institute of Peruvian Studies (IEP) is a research center in Social Sciences characterized by independent, plural and interdisciplinary study on Peru and Latin America.

Since its foundation, the IEP has obtained important achievements in social studies and has contributed significantly to discussing topics of fundamental interest for the country's development. Its research activities and dissemination of social studies on Peru and other countries in the Latin American region seek to contribute to economic development with equity, the strengthening of democratic institutions and the recognition of the richness of cultural diversity.

The Institute of Peruvian Studies is committed to a broad look at the country's social problems, including historical, economic, social, political and cultural aspects, to achieve a more precise understanding of the national reality. The research aims to identify the factors that hinder the sustainable development of Peruvian society and propose mechanisms to overcome them. Currently, investigations are organized into four areas: Inequality & social change, power, democracy & citizenship, public policies & reforms, history & culture.

UNDP and IEDP: Furthermore, following IEP and UNDP research experience, a senior committee will be established to guarantee multilateral experiences of financial inclusion integrated by experts coming from the public, private, academy and civil society.

Legal representative from IEP: 28273328-Natalia Gonzalez

The research team:**IEP**

IEP Senior researcher: Carlos De los Ríos

UNDP

Innovate your Market Program Manager: Ximena González

Junior researcher – Specialist in qualitative tools: José Mendoza

Junior researcher – Specialist in quantitative tools: Dámaris Herrera

The research team will furthermore be supported by the UNP Program Officer, Gabriela Ellegren, who will not only ensure coordination with the different actors involved in this research; but also work closely with the public sector in order to guarantee the integration of the main findings into the public policies and programmes. Last but not least, this person will take care of overall quality assurance and global presentation / distribution of results.

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