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# Social programs and their contribution to financial inclusion in Peru

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## Abstract

The main objective of this research is to analyze how social programs contribute to the process of financial inclusion in favor of the most excluded sectors in Peru. Study of qualitative approach, hermeneutic research method, phenomenological design, being the scenario of study research carried out on the topic, using as strategies of information collection the documentary analysis. This study is of great importance because financial inclusion programs are the new benchmark for optimizing current social programs in Peru and, in this sense a study on the knowledge of the strategic details of financial inclusion as a vehicle for social development and fight against poverty results in a need of macro scope for the well-being of our society in general. Likewise, the purpose described does not deviate from the purpose of contributing with providing the necessary knowledge for those decisions that may be taken in the Peruvian State and public concerned, in order to enhance the promotion of financial inclusion, with the consequence of strengthening our current social assistance programs and avoiding scenarios of real impossibility to end with high poverty rates in countries of the region.

**Keywords:** Social programs, financial inclusion, development.

## Introduction

Poverty is an urgent problem that must be addressed and seek to reduce its current levels, since it has destructive effects on the lives of individuals and societies, the World Bank (WB), mentions that poverty is an acute deprivation of well-being. Therefore, a strategy to fight poverty are social programs which are formed by a set of resources and organized actions that aims to solve a problem or need, and thus contribute to the improvement of the quality of life of the people to whom they are directed (Quispe, 2017).

Poverty and inequality remain structural problems in the region. As detailed in the Social Panorama of Latin America, 2018, although significant progress was made in reducing poverty and extreme poverty between the beginning of the last decade and the middle of the present, since 2015 there have been setbacks, particularly with regard to extreme poverty. In 2017, 10.2% of the population of Latin America was in extreme poverty and 30.2% in poverty. Likewise, while income inequality has been reduced over the past 15 years, the pace of decline has slowed in recent years and Latin America and the Caribbean remains the most unequal region in the world. In 2017, the simple average of the Gini indices of 18 Latin American countries was 0.47 (Abramo, Ceccehini and Morales, 2019).

The World Bank (2018) defines financial inclusion for both individuals and companies as having access to useful and affordable financial products that meet their needs for transactions, loans, savings, credit and insurance provided in a responsible and sustainable way. Peru and Latin America still present many challenges in terms of financial inclusion, either due to their geography, support systems for the financial sector (legal framework, credit information), the financial education that their population perceives, culture, among others. In recent years, we have been able to witness the growth of the financial sector in the Latin American region, which in turn generates the need to include everyone in it in a quick and conscious way so as not to be excluded from the benefits that it brings to a large part of the population.

Inclusion is essential for financial systems to contribute to sustainable economic and social development. It does not only refer to raising the low levels of financial access and banking in the region, but also to improving and perfecting the use of the financial system by those actors that are part of the formal financial circuit. According to this logic, financial inclusion is a policy of productive insertion. It is about using the financial system as an instrument to expand the possibilities of savings and consumption and, at the same time, improve the use of business talents and investment opportunities. In this way, financial inclusion allows the financial system to respond to the different and heterogeneous financing needs of companies in the different stages of productive and technological process (Pérez and Titelman, 2018).

In this context, there are currently several social programs in Peru aimed at the poorest and most vulnerable people, however, since the implementation of these programs, a series of comments and criticisms have been generated from various actors regarding their participation in the reduction of poverty (Quispe, 2017). Although there are still approaches that emphasize the need for a minimum State, the principle of subsidiarity, the pre-eminence of the market and the promotion of social policies as a marginal instrument, it is increasingly evident that this route does not reduce inequalities or overcome poverty, and that it is necessary to think about an institutionality and social policies that face the problems of the current style of development and the challenges emanating from global changes.

In this sense, this research becomes important to the extent that financial inclusion programs are the new reference to optimize current social programs in Peru and, in this sense, a study referring to the knowledge of the strategic details of financial inclusion as a vehicle for social development and the fight against poverty results in a need of macro scope for the well-being of our society in general. Taking into account also that the execution of the main social programs by Latin American governments in favor of the neediest populations, always provoke politicized discussions regarding the need to expand budgetary margins in favor of political clientelism, merits a broad investigation of the real potentialities of financial inclusion in social programs that lead to a definitive solution to Peruvian welfare.

In relation to the aforementioned, the present study poses as a research question How social programs contribute positively to financial inclusion in favor of the most excluded sectors in Peru? And as specific objectives: What are the limitations of the financial inclusion process for its integration with social programs in Peru? How can the process of social programs be promoted in financial inclusion in favor of the most excluded sectors in Peru?

For this reason, the general objective was to analyze how social programs contribute to the process of financial inclusion in favor of the most excluded sectors in Peru. And as specific objectives; Analyze the limitations of social programs in their unification with financial inclusion in Peru. Encourage the participation of excluded social sectors in financial inclusion programs that support Peru's development.

## Methodology

**Focus**: the present study is framed in the naturalistic scientific paradigm, which, as Barrantes (2014) points out, is also called naturalist-humanist or interpretive, and whose interest is focused on the study of the meanings of human actions and social life.

**Research method**: it is based on the hermeneutic method, because it provides its own alternative for the interpretation of texts. Hermeneutics is, in a general sense, the study of comprehension and interpretation, and in a particular sense, the task of interpreting texts. Hermeneutics is considered part of the qualitative perspective because the predominant concept of qualitative research includes, in a general way, all approaches that are not quantitative (Hermida, 2019).

**Design**: The study is part of a phenomenological research, consists of the study of social phenomena taking into account the perspective of the social actors themselves. According to Katayama (2014), phenomenological design "seeks to describe the experience of the subject in and of itself, renouncing any kind of causal explanation. This research will serve to analyze how social programs contribute to the process of financial inclusion in favor of the most excluded sectors in Peru.

**Research scenario**

In this research, previous studies structured in scientific articles and theses of recent years that contribute to the analysis of the process of financial inclusion in social programs in favor of the most excluded sectors in Peru were analyzed.

**Information collection strategies**

Documentary analysis was applied as a technique; this strategy is the starting point of all research with which it seeks to address the subject or problem of study. During the information gathering phase, reading becomes a necessary tool that allows obtaining information related to the subject (Maya, 2014). The objective of the documentary analysis is to know the context that allows to reveal and understand the interests and points of view of the reality on the social programs and their contribution to financial inclusion in Peru.

## Results and Discussion

Financial inclusion is defined as access to and use of formal and quality financial services and products without taking into account income level, place or gender (Girón, De la Vega, and Vélez, 2018). In the traditional financial system, this access is achieved through banks and financial institutions, while, in the contemporary system, it can be given through telecommunications companies (Senyo and Osabutey, 2020). Financial inclusion aims at economic and, in particular, financial development (Grohmann, Klühs and Menkhoff, 2017). In addition, it produces positive effects such as the increase in purchasing power in low-income people (Thoene and Turriago, 2017), the stability of the banking system (Vo, Nguyen and Van, 2020) and economic growth (Atiase, Wang and Mahmood, 2019).

Whether traditional or contemporary, the financial system is composed of two main agents: supply and demand. On the supply side, those institutions that are responsible for offering the different financial products and services such as loans, credits, savings, among others participate (Atiase et al., 2019). On the demand side, the population that will make use of these products and services is located. In this way, policies or practices are identified that, when applied in a correct way, can promote the development of financial inclusion (Grohmann et al., 2017).

1. *Analyze how social programs contribute to the process of financial inclusion in favor of the most excluded sectors in Peru*.

Several empirical studies have been carried out on social programmes and their contribution to the process of financial inclusion. Research such as those of Anaya, Buelvas and Romero (2020), specify that the importance of financial inclusion lies, in that it is an issue related to the possibility of the effective enjoyment of the rights of people, to lead a dignified life and have a better quality of life. According to the Bank of the Republic of Colombia (2014), financial inclusion is a phenomenon that consists of the incorporation of financial services into the daily economic activities of all members of any community. This implies that individuals, companies, households, can have access to bank accounts, credits, savings, insurance, payment and pension systems, as well as financial education, among others, that is, being able to have products with formal financial institutions.

In this regard, a study proposed by Barboza (2018), on a public policy proposal of financial inclusion for human development in Peru, specifies that there are billions of soles that the Perú spends on social programs, since these are not developed in integral development programs, this planning of human development, it should be visualized by the government in the daily life of the thousands of Peruvian entrepreneurs who have emerged as small and microentrepreneurs and who many of them constitute the new business class of our country. The evaluation of public policies is an arduous, controversial and often subjective task, seen from the perspective of economic trends and schools and political passions, even more we emphasize that there is no public body that is responsible for measuring the impact of these actions and above all a Strategic Plan for Economic Growth and Development, Social and human of Peruvians.

Although it is important to develop Social Programs and Projects, of a welfare nature to benefit vulnerable populations: mitigate poverty and extreme poverty, develop programs to reduce malnutrition and malnutrition, combat contagious infectious diseases, abandoned children and older adults, eliminate family and sexual violence; the development of capacities in our population, particularly closing the gap of a technical education, where we learn by doing and oriented to develop work skills and entrepreneurship in productive chains among other sensitive issues.

On this Barboza (2018), points out that it is more important for the improvement of the quality of life and human development, to develop Productive Investment Projects, generating inclusive, sustainable and quality sources of work; the old adage is better to teach how to fish what to give a fish illustrates this paradigm shift that should guide the central government and subnational governments to contribute to the well-being of their inhabitants.

1. *Analyze the limitations of the financial inclusion process in its unification with social programs in Peru*.

A study developed by Valderrama and Marca (2020), details that, in Peru, financial inclusion has been advancing permanently with the support of the public and private sectors. This effort has been repeatedly recognized by the Global Microscope, which in 2015 highlighted Peru as the country with the best environment for financial inclusion for the eighth consecutive year, emphasizing the special consideration of the Peruvian State that for many years has promoted financial inclusion policies, which has been reflected in various initiatives coordinated between various agents involved, both the public and private sectors.

Therefore, the public policy of financial inclusion must have as its ultimate goal to increase the capillarity of financial systems, lower costs, remove obstacles to access to services to households, individuals and companies that want and can access, consolidating through initiatives in at least 3 levels of action in the field of public policies: macro, meso and micro.

In this regard, Alarcón, Domínguez, Gallardo and Tello (2020), developed a study on diagnosis, Analysis and Proposal for improvement of the National Program of Direct Support to the Poorest – JUNTOS, in which they consider that conditional transfer programs, as an important element in the development of social policy, allow reducing levels of poverty and inequality through the fulfillment of co-responsibilities. As a result, the beneficiary population will perceive an improvement in their quality of life and will have the possibility of leaving the poverty line.

Alarcón et al. (2020), report that, in Peru, the National Program of Direct Support to the Poorest – JUNTOS, in charge of the Ministry of Development and Social Inclusion (MIDIS), is responsible for executing cash transfers to families in situations of poverty and extreme poverty in urban and rural areas. With this, JUNTOS achieved that in the short term the beneficiary families improve their quality of life, and, therefore, fulfill the co-responsibilities in health, nutrition and education, thus restoring their basic rights and contributing to the reduction of the intergenerational transfer of poverty.

- *Encourage the participation of excluded social sectors in financial inclusion programs that support Peru's development*.

In recent decades, there has been great interest in the financial struggle to reduce social inequalities. This confrontation is aimed at transcending borders beyond setting targets for specific and short-term segments by the financial system. This is due to the presence of financial exclusion, a global problem that disadvantages people in conditions of poverty. There are factors that increase cases of financial exclusion such as geographical barriers, restriction of access in administrative processes, restriction of conditions associated with financial products, among others. Thus, financial inclusion plays an important role in promoting best practices for the development of the financial system (Koku, 2015).

Access to a financial account, both to store money, and to receive and make payments, facilitates the daily activities of households, improves their ability to make future plans and face short-term shocks. In turn, agents who access a bank account are more likely to use other financial services, such as savings, credit and insurance plans, to start or expand ventures, invest in education and health, manage risks and face financial crises, reducing their social, labor and economic vulnerability (Orazi, Martínez and Vigier, 2020)

Greater social development is measured in greater human development and quality of life of citizens. The analysis of the impact of public investments to promote human development such as production chains, agricultural business plans, local business plans such as poultry breeding, orchards, crops, shoe workshops, craft workshops, etc. carried out at the three levels of government: the Central Government, regional governments and Local Governments, With an evaluation of the sectoral and functional competence of these, based on their intrinsic functions and on the transfers made from the central government to the subnational governments, as a result of the decentralization process.

Under this context, the great responsibility of public management is not only to work for the public welfare, with efficiency and effectiveness but to achieve sustainability and will only be achieved with human development; and to achieve this we must give it the economic means and alternative productive plans that are sustained in financial inclusion with actions and interventions susceptible to be measured by their impact on their social indicators. This research seeks to analyze the guidelines of Public Policies of public investment based on financial inclusion, which maximize social welfare based on the resulting diagnosis and prognosis; proposing, if possible: improvements in social policies, and in planning and management processes that optimize the selection and impact of social projects and programs with development. These programs and projects must be aligned with the Strategic Plans for Local Development (Barboza, 2018).

## Conclusions

As expressed in the review of the literature, it is highlighted that financial inclusion generates a path of economic growth, especially focused on the population with fewer resources, because through access and use of financial tools the management of risks, income, expenses and investments of households is improved. In turn, it facilitates savings and improves access to credit and insurance, among other effective financial services to soften consumption, start or expand a business, invest in education and health, etc.

The process of financial inclusion has allowed the expansion of financial services to more and more places focused on seeking the development of society. From the economic point of view, the financial system contributes in a useful way to the economy through the contribution in the savings and investment decisions of a country and its functionality validates economic growth. Therefore, it is important that the financial structure is solid and inclusive to be sustainable over time, since, in the presence of market failures, subjective and objective barriers to access to financial inclusion can be created.

Although it is important to develop Social Programs and Projects, of a welfare nature to benefit vulnerable populations: mitigate poverty and extreme poverty, develop programs to reduce malnutrition and malnutrition, combat contagious infectious diseases, abandoned children and older adults, eliminate family and sexual violence; the development of capacities in our population, particularly closing the gap of a technical education, where we learn by doing and oriented to develop work skills and entrepreneurship in productive chains among other sensitive issues.

As it is to be specified, financial inclusion is an activity that is found in the day to day of the whole world, acquiring greater relevance by recognizing the financial sector as a fundamental element that contributes to the development of a country, given that access to financial services allows to expand the productive opportunities of small and medium businesses that contribute to the increase of better economic opportunities, to the country's investment and productivity.

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