



Peru

August 2019

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Peru has one of the most intense credit usage we have observed but also one of the highest credit capacity according to the MIMOSA methodology, resulting in a MIMOSA score of 5. This dense credit offer creates fierce competition that causes some damage (very pushy marketing, speedy disbursements, high rates of persons blacklisted and hence re-excluded, over-indebtedness for some borrowers) but market players seem to recognize that caution is necessary and credit portfolio have mostly grown at the same pace as GDP in the past few years. Surveys of market players indicate that this trend is likely to continue and Peru is thus considered to be a “stable” 5. Peru is also a very mature microfinance market, and has one of the most sophisticated regulation and supervision systems for microfinance, including detailed and publicly available information on financial performance and outreach, systematic credit bureau reporting and advanced regulatory measures of client protection, all of which have so far effectively insulated the market from serious crisis.

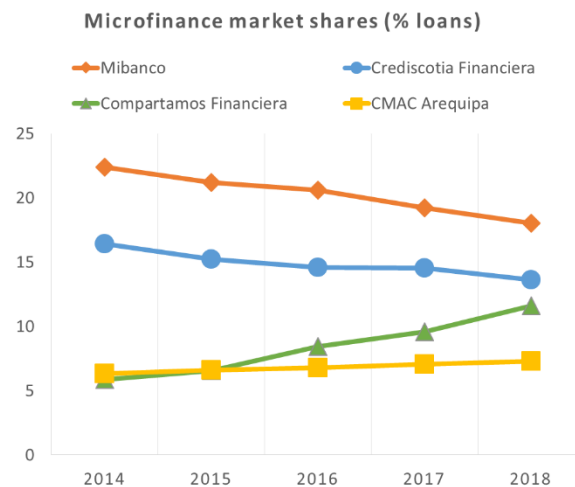
Credit penetration stands at a high 22% of the adult population, a penetration rate that is only surpassed in our database by the Indian state Tamil Nadu (35.5%). The estimated credit capacity is also the highest thanks to Peru’s HDI that positions it as a “High Human Development” country (0.750 in 2018), high credit bureau score and despite a low population density for the country overall (25).

This credit penetration has actually stabilized around 22%¹ of adults since 2014, with growth in number of borrowers that is just in line with population growth. The retail loan portfolio has grown in value by 8% on average over the past 3 years, which is pretty much equivalent to the average GDP growth over that same period (7%).

Category	Rating	Indicator	Value
Saturation (overall)	5	Loan penetration over capacity	+8.0%
Regulation for microfinance	●	Overall quality of regulation	78
	●	Client protection (prevention of overindebtedness)	100
	●	Client protection (transparency, sales, collections, consumer rights framework)	100
Microfinance Competition / Overheating	●	Level of competition (HHI)	889
	●	% Borrowers with 3+ loans	9.25%
	●	Loan portfolio CAGR in value past 3 years vs. GDP growth	8.1% vs. 7%
	●	Loan portfolio growth in value expected next 12 months vs. forecasted GDP growth	10% vs. 6.4%
Maturity of microfinance institutions*	●	% clients at MFIs <10y or >20y old	70% > 20y
	●	Experienced crisis in past 15 years	No
Transparency	●	Composite transparency score	4
	●	% leading MFIs with ratings in past 2 years	100%
Other risks	●	FX exposure	8%

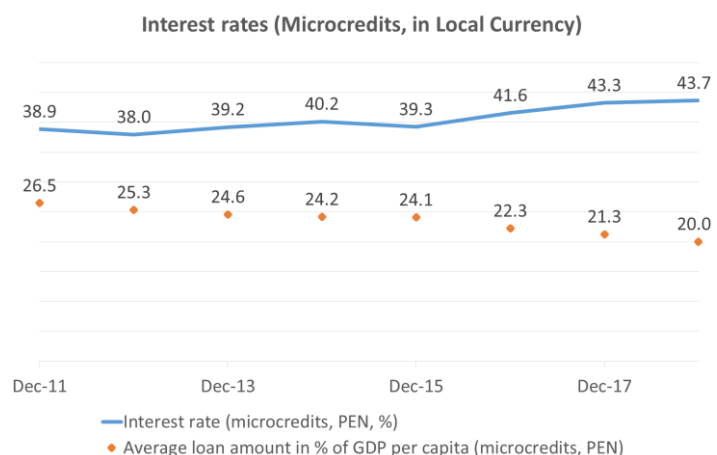
¹ Our 2015 report (published Jan 2015) indicated a penetration of 25.6%, but was based on data from Equifax that counted some fully repaid loans or guarantees as active credit exposure, as we found out when conducting this update. The correct penetration figure for 2014 was also 22%. This penetration would have resulted in a score of 5 for 2014, instead of the 6 we indicated in our previous report. Due to this problem with Equifax’s 2014 dataset, the percentage of multiple borrowing was also overstated in our previous report at 23.6% when it was most likely closer to 8%.

The market is very mature with 70% of borrowers being served by institutions that have 20 years of operations or more. The market is also very dense with 89 players serving the microfinance segment². This results in a very low HHI of 889 (its inverted scale means that lower number implies higher competition and vice versa) that has actually further decreased since 2014 despite some consolidation in the market. Indeed, the market shares³ of the top 8 players of the microfinance market tend to converge rather than diverge (see graph on the right) and medium size players continue to be able to gain market shares relative to larger FIs either through geographic expansion, further adaptation of the credit offering to new niches, or widening of the credit offering (reintroduction of village banks for the case of Compartamos Financiera).



This very active marketing is reflected in our field surveys of potential microfinance clients: almost all interviewees had received at least one credit offer in the month before the interview, 70% had received 3 or more, and 35% indicated receiving 5 or more. The chase to maintain or increase market share also translates in very speedy disbursement processes: 78% of borrowers in our sample indicated that they received their loan in 2 days or less. Despite all this dynamism and competitiveness, the average interest rate for microcredit (in local currency) has remained extremely stable (around 40%) and even slightly increased since 2015⁴ and currently stands at 43.65%, a relatively high level for a mature market where PAR ratios have been stable at around 6% for the past 10 years and ROA hover around 2%⁵. This stable to increasing trend of interest rate is linked to the fact that average loan amounts have remained very stable for the microcredit segment at around 4'000 PEN (equivalent to 1'250 USD) and have actually decreased in % of GDP per capita (from 26% in 2011 to 20% today, see graph below).

Surveys from MixMarket⁶ and Smart Campaign⁷ conducted in 2017 and 2016 confirmed that the sophisticated client protection regulation in place ensures that collection practices are mostly reasonable, that clients are usually aware of the existence of credit bureaus and that complaints mechanisms are efficient. But these surveys also highlighted that additional actions would be needed to guarantee that clients are given sufficient



² Copeme, December 2018: 31 institutions supervised by the SBS (1 Banca Multiple, 7 Financieras, 12 CMAC, 6 CRAC, 5 EDPYME) 47 (of the 165) cooperatives reporting to FENACREP, 11 non-regulated NGOs.

³ In number of borrowers

⁴ The figure is for local currency loans that represent more than 90% of the market. Source: SBS

⁵ Data on average loan size, ROA and PAR from COPEME.

⁶ MixMarket, Voice of the Clients, Peru, 2017. Sample size: 3,000 clients.

⁷ Smart Campaign, Client Voices, Peru, 2016

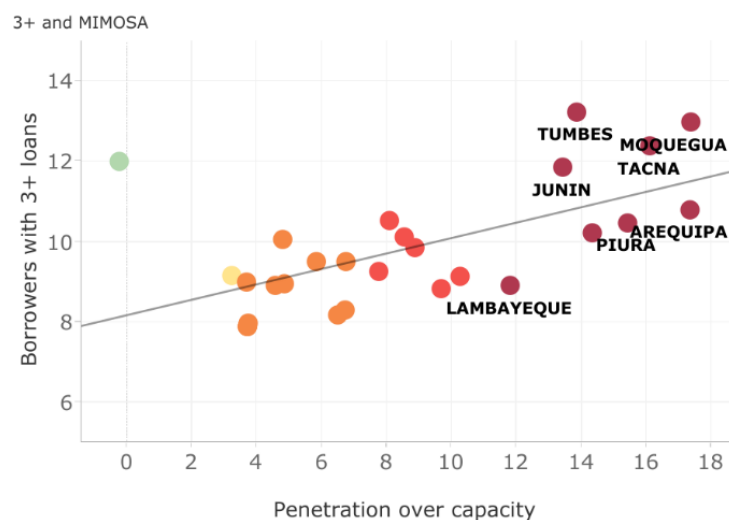
time to understand loan conditions and the implications of blacklisting in credit bureau (and how/when to get deregistered).

Both of these reports also highlight that the number of borrowers showing signs of stress is not anecdotal. Our surveys confirm that this saturated market indeed has consequences in terms of over-indebtedness: Borrowers with 3+ loans represent close to 9.3% of borrowers, one of the highest rates in our database⁸. Borrowers with 3+ loans have, in turn, a higher probability to have to make sacrifices to repay loans, a usual finding from over-indebtedness studies again corroborated by our survey: 27% of all borrowers in our sample said they regularly make sacrifices to repay their loan (which adds up to 6% of the adult population when extrapolated to all borrowers); and this percentage increases to 42% for borrowers with 3 loans or more. Overall 45% of borrowers had to make sacrifices that they considered unacceptable (like, by decreasing order of occurrence: suffering stress or humiliation, working more than usual, asking for help from family or friends, pawning assets, taking other loans, using their savings, reducing food quality or quantity, postponing important payments, or reducing children's education).

This collection of facts adds up to one conclusion: The Peruvian credit market is sufficiently well organized to ensure stability for the financial institutions; but further efforts need to be made to ensure that it is also safe for clients. The recent transition to IFRS9 will likely increase the cost of multiple borrowing to the financial institutions, a welcome addition to the system as these loans are very likely to create stress and costs for the borrowers that need to be better mutualized.

MIMOSA Scores per region

50% of the Peruvian adult population lives in areas where the market saturation is high or very high: the 8 departments that receive a MIMOSA score of 6 are home to 23% of the adult population. They have penetration rates between 32% and 26% (by decreasing penetration: Moquegua, Arequipa, Tacna, Ica, Piura, Tumbes, Junin, Lambayeque). Another 14% of the adult population lives in departments that receive a score of 5 (Madre de Dios, Cusco, Ayacucho, Puno, San Martin), while an additional 12% are in departments currently scored 4 but are very close to the limit of a 5 (Pasco, La Libertad, Ancash, Ucayali). All these departments are essentially the ones along the borders of Bolivia, Chile and Ecuador, and along the coast. The region of the capital, Lima⁹, with a penetration of 20% receives a score of 4. As is often the case with regions that receive important inflows of internal migration, the penetration rate in Lima might however be underestimated with some persons being registered in Lima but having taken loans from their home



⁸ The only countries with higher rates being Nicaragua and Bolivia (12% in both cases)

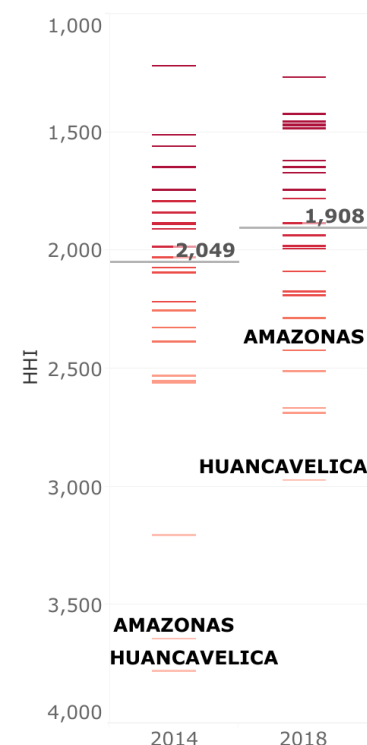
⁹ We are grouping Lima and Callao given the very specific geography of the Callao department that is essentially surrounded by the Lima department

towns. The regions that receive a score of 2 or 3 can be considered underserved (Loreto and Huánuco) but represent only 6% of the adult population.

The 2018 regional dataset for Peru confirms the positive correlation between saturation and the percentage of borrowers with 3+ loans, with higher saturation areas also having higher rates of borrowers with 3+ loans (see graph on previous page).

Several indicators illustrate how the different players are gradually expanding their outreach and intensifying competition in all regions.

- The median number of regulated MFIs in each department went up to 16, up from 14 in 2014¹⁰. The 5 most served departments now have the presence of at least 20 MFIs, compared to 18 in 2014.
- A department like Huancavelica, which has one of the lowest HDIs (0.671) and a population of 500'000 adults, saw the entrance of 4 new MFIs between 2014 and 2018 (moving from 7 to 11 microfinance providers). Places like Piura or Cajamarca now have 18 or 19 active players instead of 15 in 2014.
- The median regional HHI has decreased from 2049 to 1908 (indicating higher competition) and the few departments that were outliers with much lower competition due to a very strong foothold of the local CMAC see the competition intensifying quickly (Huancavelica and Amazonas; see graph bottom right).



¹⁰ out of 32 regulated microfinance providers in the country

Region	Population (000s)	HDI	Population density (per km2)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity	Borrowers with 3+ loans
National	31,826	0.750	25	5	14.4	22.2	7.8	9.3
LIMA and CALLAO	11,182	0.783	320	4	16.7	20.5	3.7	7.9
LA LIBERTAD	1,905	0.738	75	4	14.5	21.3	6.7	8.3
PIURA	1,873	0.720	52	6	14.1	29.5	15.4	10.5
CAJAMARCA	1,537	0.683	46	4	13.3	17.9	4.6	8.9
PUNO	1,443	0.690	20	5	13.3	21.8	8.5	10.1
JUNIN	1,370	0.714	31	6	13.8	27.2	13.4	11.8
CUSCO	1,332	0.716	19	5	13.8	23.5	9.7	8.8
AREQUIPA	1,316	0.786	21	6	15.1	32.5	17.4	10.8
LAMBAYEQUE	1,281	0.729	90	6	14.5	26.3	11.8	8.9
ANCASH	1,160	0.738	32	4	14.3	20.8	6.5	8.2
LORETO	1,059	0.687	3	2	13.1	12.9	-0.2	12.0
HUANUCO	873	0.676	24	3	13.0	16.3	3.2	9.2
SAN MARTIN	863	0.680	17	5	13.1	21.2	8.1	10.5
ICA	803	0.791	38	6	15.3	29.6	14.3	10.2
AYACUCHO	704	0.690	16	5	13.2	22.1	8.9	9.8
UCAYALI	507	0.699	5	4	13.3	19.2	5.8	9.5
HUANCAVELICA	502	0.671	23	4	12.9	16.6	3.7	9.0
APURIMAC	463	0.721	22	4	13.9	18.7	4.9	9.0
AMAZONAS	425	0.680	11	4	13.0	17.8	4.8	10.0
TACNA	350	0.759	22	6	14.6	30.7	16.1	12.4
PASCO	308	0.731	12	4	14.0	20.8	6.8	9.5
TUMBES	243	0.728	52	6	14.2	28.0	13.9	13.2
MOQUEGUA	184	0.805	12	6	15.4	32.8	17.4	13.0
MADRE DE DIOS	144	0.747	2	5	14.2	24.5	10.3	9.1

Data Appendix

Like all MIMOSA reports, this report aggregates an array of data from multiple sources, often applying transformations and estimates to ensure consistency and comparability within this report and across the full set of MIMOSA products. This is a brief summary of the data included in this report. Unless otherwise stated, all data is as of year-end 2018.

Credit penetration

Penetration data was obtained from Equifax. We asked for data on the number of natural persons that have an active credit exposure, broken down by department and by the number of financial institutions they borrow from. The financial institutions included in the dataset are all regulated FIs and cooperatives that report to the credit bureau. We excluded the credit card balances and written off loans from the credit exposures that make someone a “borrower”.

Capacity

The HDI for each department was derived from data by department published by the INEI for the following datapoints: adult population, GDP per capita (converted to 2011 PPP \$), life expectancy at birth, mean years of schooling for age 25+. We used the expected years of schooling published by UNDP in the HDR report for all departments.

Other indicators

Economist Intelligence Unit Microscope 2018: for ratings of regulation quality (see User Guide for details)

MIX Barometer Peru 2018 Dec: used to generate growth forecast (for number of borrowers)

IMF World Economic Outlook Apr 2019: for per capita GDP and economic growth forecasts

Project-generated indicators

MFI survey of 25 MFIs in Peru, conducted in Oct 2018; conducted in partnership with COPEME

Field survey of 180 potential microfinance clients, implemented by Datum in Lima/Callao, Cusco and Arequipa.

User Guide

This is an abbreviated guide. For explanation of the methodology behind the penetration and capacity values, please consult the MIMOSA whitepaper.

The MIMOSA index consists of several measures. The primary score evaluates the degree to which the level of penetration exceeds estimated market capacity. The score levels and their interpretation is shown in the below table.

MIMOSA Score	Penetration over/ under capacity		
	Percentage points	Standard Deviations	Market status
6	>11.1%	3+	Saturated
5	7.4-11.1%	2 to 3	
4	3.7-7.4%	1 to 2	
3	0-3.7%	0 to 1	Normal
2	-3.7 - 0%	-1 to 0	
1	< -3.7%	< -1	Underserved

In addition to the score, we include the component metrics underlying the capacity and penetration calculations:

Human Development Index (HDI): developed by UNDP to assess the level of development, comprising GNI per capita, life expectancy, and education metrics. The scale ranges from 0-1.

Population density per km²: standard measure retrieved from country statistical bureaus.

Credit Bureau Score: derived from the Getting Credit measures in the World Bank Doing Business report. We include the level of coverage, and amount of information (both repayment history and debt outstanding) provided. The scale ranges from 0-400.

Borrowing Capacity: % of adults expected to be active borrowers, based on the MIMOSA model.

Borrowers per adult: derived from multiple sources, including the World Bank Findex survey, central bank reports, credit bureaus, and MIMOSA field surveys.

Microfinance borrowers (% of loans): number of active loans of microfinance institutions. Usually defined either by institutional registration with the regulator or membership in the microfinance association. Multiple loans held with the same institution are counted once.

Credit card borrowers (% of adults): number of adults with an outstanding credit card balance. Figure from Global Findex.

Credit card score: level of penetration vs. capacity. Graded on a three-point scale, indicating a market whose credit card demand is under-served, appropriately served, or over-saturated.

GDP 3-year CAGR (current \$): three year cumulative growth rate of GDP. Figure from IMF WEO.

GDP per capita (constant LCU): figure from IMF WEO.

In addition, we include a list of indicators that serve as additional risks or mitigants that in aggregate may increase or reduce the country's ability to manage increased levels of penetration:

Category	Indicator	Indicator	Mitigant 	Neutral 	Risk 
Regulation	Overall quality of regulation	Overall Microscope score (0-100)	≥ 65	50-65	< 50
	Consumer protection (overindebtedness)	Microscope score 3.2	≥ 90	60-90	< 60
	Consumer protection (transparency, sales, collections, consumer rights framework)	Avg of Microscope scores 4.1.1; 4.1.2; 4.1.3b	≥ 90	60-90	< 60
Competition / overheating	Level of competition	Herfindahl-Hirschman Index	$\text{HHI} > 3,000$	$1,500 < \text{HHI} < 3,000$	$\text{HHI} < 1,500$
	Multiple borrowing	% borrowers with 3+ loans	$< 5\%$	5-15%	$> 15\%$
	Prior growth	Loan portfolio 3-year CAGR	$< 2\times$ GDP growth	2-3x GDP growth	$\geq 3\times$ GDP growth
	Future growth	Loan portfolio 12-mth growth expectations	$< 2\times$ GDP growth forecast	2-3x GDP growth forecast	$\geq 3\times$ GDP growth forecast
Maturity of microfinance institutions	Age of FIs	% clients of MFIs $> 20\text{y}$ or $< 10\text{y}$ old	$> 65\%$ of the borrowers are clients of MFIs > 20 years old	Other	$> 65\%$ of the borrowers clients of MFIs < 10 years old
	Prior crisis experience	Date of previous crisis	Market experienced crisis in past 15 years	no crisis experience	
Transparency	Composite score	See Transparency worksheet	≥ 3		< 1.5
	Ratings	% leading MFIs rated in past 2 years	≥ 75	50-75	< 50
Other risks	FX exposure	% of loans in foreign currency	< 10	10-25	≥ 25
	Interest rate level	Average Full APR, weighed by number of borrowers	$< 30\%$	30-60%	$> 60\%$