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## AN INITIAL APPROACH TO THE FINANCIAL TRAINING RESULTS OF THE PROJECT HAKU WIÑAY\*

**JOSÉ ALFONSO HEREDIA**

SOCIOLOGIST, DOCTOR IN AGRONOMY ISSUES  
BY HUMBOLDT UNIVERSITY (BERLIN)  
INDEPENDENT CONSULTANT

The analysis of different experiences that promote financial inclusion in order to encourage effective social protection policies has contributed, over the last years, to the design of new development policies. The project Haku Wiñay is, precisely, a result of such capitalization of experiences, insofar it was designed within the framework of the Fondo de Cooperación para el Desarrollo Social – Foncodes (Cooperation Fund for Social Development), a program attached

to the Ministry of Social Inclusion and Development (Midis) of Peru.

The objective of Haku Wiñay is to develop mechanisms for stimulating entrepreneurial ventures of households located in poor rural areas, so that they can complement the policies of social compensation implemented by Midis. In light of this, the project develops these households' productive abilities. The project's design also contains a "promotion of financial abilities" component that encourages financial inclusion through financial training or financial education.

Given that the project Haku Wiñay is in the final stage of its first expansion phase, after

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\* The document is available in Proyecto Capital's website: <http://www.proyectocapital.org/en/all-publications/in-short.html>



carrying out the corresponding pilot test, Proyecto Capital decided to undertake a qualitative study. This study sought to explore, selectively, the results achieved and the lessons that arise from the aforementioned financial abilities promotion component.

In order to write this *inshort*, the last version of the qualitative study's final report was used, after it had been debated and had received feedback from peers at Midis and Foncodes.<sup>1</sup> This *inshort* contains the main outcomes of the study mentioned above.<sup>2</sup> The study started with a review of the main training materials prepared in Foncodes. Then, three districts where the project is executed were visited and their outcomes compared: Vinchos in Ayacucho, as pilot location; Chalamarca in Cajamarca and Umari in Huanuco, as expansion locations. In each of the visited locations, the project's users were interviewed (savings accounts holders and non-holders) as well as the personnel in charge of executing the project. This amounts to a total of 78 individual interviews, a part from one interview held in the Foncodes' headquarters in Lima.<sup>3</sup>

1 See: Heredia, 2016.

2 The study was carried out between December 2015 and February 2016. The last version of this qualitative study's final report is dated May 2016, after having received the aforementioned feedback. It is expected that, further along, a new document about the same topic will be prepared, but that will use complementary quantitative information, gathered by the Grupo de Análisis para el Desarrollo – Grade (Analysis Group for Development). For more information, see: item 4.4 of Escobal and Ponce, 2016.

3 A group of guiding questions were prepared for the interview guides. See: Heredia, 2016.

## FINDINGS RELATIVE TO THE USER POPULATION

### Profile of the Participant Households

Interviewed users pointed out that they have scarce natural resources and that often farming activities do not allow them to maintain significant business throughout the year. As a result, they tend to practice a diversified economy. According to what was stated during the interviews, it is understood that their direct farming activities—carried out by themselves, independently—are losing importance in terms of income generation. Testimonies show that non-farming activities, such as small manufactures, small businesses, arts and crafts, and the direct sale of their workforce, are gaining importance in terms of generation of monetary income but are still less important in terms of time allocation.

Most of the people interviewed pointed out that even with the contribution of non-farming activities, they were not able to guarantee a surplus to be potentially saved. That is to say, a surplus they could consider as an amount of cash additional to what is needed solely for the sustainability of the household economy. People who stated having monetary surplus preferred investing available resources in new productive cycles, in buying land or in building a house. Also, investing in their children's education, especially when they study outside the place of residence. External policy interventions seeking to stimulate change in households' economic decisions must take into account these behavioral trends.

In addition to the restrictions vis-à-vis the availability of assets and the households'



economies, the conversations with the interviewed users reflected a marked mistrust towards the formal financial system. The preference for local forms of financing was evident, both for credit and savings.

### Training Workshops

In this context, the project's personnel carried out arduous work in order to explain the nature of the financial abilities component and persuade the population to participate in the training workshops. According to the testimonies in all of the visited locations, training sessions or workshops were executed according to planned. There weren't even any mentions of deferrals—in any case.

Users manifested that they had made an effort to have present, at least, one representative per household in each of the workshops. This gives an idea of the magnitude of the project's households present in these training sessions. Gathered testimonies show that the target population's initial doubts and uncertainties about the specific usefulness of training in finance topics were transformed into open satisfaction and gratitude, in the measure that they acknowledged they had acquired practical knowledge—something that had never been offered to them regarding this topic.

### Findings Relative to the Financial Abilities Component

The interviews were also useful for confronting users with the concrete knowledge that they had acquired during the training processes. While it was identified that they had acquired different types of knowledge, it cannot be stated that this knowledge was ample and representative. Rather, it became clear that the users' preoccupations focused in the practical

use of the debit card. Also, the central focus of the training workshops was related to the opening and use of savings accounts.

In the visited districts, savings accounts in Banco de la Nación<sup>4</sup> are the most frequent. These accounts are opened by initiative of the conditioned monetary transfer program of Peru, JUNTOS. This program is executed by Midis, but it is autonomous with respect to Foncodes. It was observed that, in practice, users conceive this fund to be temporary. It is mostly destined to satisfy the immediate needs of the household's members and, in a lesser measure, to retirement savings *per se*.

While most interviewed users claimed to only have the account at Banco de la Nación, it was identified that in some cases, households had decided to open an account to deposit their own funds. The latter tend to be allocated to the household's economic reproduction cycle. Some of these accounts, opened voluntarily, were also held at Banco de la Nación, as users felt they had more guarantees in this institution. Nevertheless, some households did open accounts in other financial institutions of the formal system, mostly in those that offered them more benefits, such as rural or municipal savings and credit associations.

In spite of these savings efforts, it cannot be stated that the training sessions' participants consider savings as a fund for facing future

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<sup>4</sup> Banco de la Nación is a Peruvian public law corporation, part of the Economy and Finance sector, and it operates with economic, financial, and administrative autonomy. For further information about its activities and services go to: <http://www.bn.com.pe>

and unexpected contingencies. They claim to save, mostly, for immediate security reasons, rather than as a reserve for future events. This became clear when users explained that they also saved as a precaution until it was time for the next phase of reinvestment in their economic reproduction cycle. In the best case scenario, it was pointed out that, given the circumstances, the amount saved is used to obtain credit, specifically, in a microfinance banking institution.

Among the visited homes, only in few cases none of the household members possessed a savings account in the formal financial system. In spite of having received training, these few households, refused to open a savings account in the formal financial system, regardless of the benefits and terms offered. This was due to the user's advanced age or to the fact that they prioritized the immediate reinvestment of their available resources.

An additional result vis-à-vis the economic decision making of rural households is that not a single household stopped working in parallel with informal financial operators. Again, this happened in spite of the financial training they had received and the decision to insert themselves into the formal financial system. Furthermore, some interlocutors were clear when stating that, given the restrictions that characterize their territories, they cannot stop optimizing their economic decisions with regards to the different opportunities that may be presented to them.

Testimonies gathered from the project's users show that they acknowledge the advantage of having a savings account in the formal financial system. Furthermore, interviewed households

that claimed carrying out economic activities with greater overview, even distinguished the usefulness of other services offered by the formal financial system. For example, access to credit (loans) and money transfers (remittances). It should be observed that, in these scarce cases, households tend to have a business in operation or a business bigger than the average of the visited locations.

In summary, the project Haku Wiñay, by means of its component for strengthening financial abilities, has indeed provided the initial foundations for the financial insertion of most of the user households. This should be understood as an intermediate result in the path towards strengthening these household's economies. According to what was observed, it cannot be denied that only with strengthened and self-sustainable economies it will be possible to increase financial practices within the formal system and distance households from non-formal practices, thus allowing them to take advantage of the already existing opportunities.

## FINDINGS RELATIVE TO THE PROJECT'S PERSONNEL

### The Project's Personnel

The personnel that executed, directly, the fourth component of the project Haku Wiñay comprises: a) financial facilitators, generally, local professionals that receive a concise induction for carrying out the training program, which is intended to last six months; and b) financial yachachiq, users selected by facilitators who are prepared to replicate the training they have been given and carry out the follow-up of the households once the



work of the facilitator has finalized, which can amount up to an additional year of work.<sup>5</sup>

In the interviews, since the beginning, facilitators and yachachiq spoke about the difficulties they had to overcome in order to convince users to participate in the training process, as users did not find any advantages to investing the little free time they had in a training process with a series of stages. In spite of this, training did take place in all of the visited locations. With regards to this issue, the personnel manifest undeniable satisfaction; not so much for the accomplishment of quantitative goals, but for having identified effective change in the financial behavior of the households. They attribute these changes to the knowledge transmitted. It was stated that this task had not been taken up by any other external intervention up to that moment.

### Training

For executing their work, the staff has a so-called *toolkit* for financial training. The toolbox was created over the base of different previous experiences, both in the public sector and in international cooperation. The toolkit was at all times aligned with the core objective of promoting financial inclusion in rural areas with less relative development.<sup>6</sup>

The toolkit was validated during the pilot phase of the project Haku Wiñay. During the

first phase of the intervention's expansion, the toolkit underwent some change. In practice, the toolkit gathers the contents of the financial training according to thematic modules and a group of materials useful for carrying out the training sessions. However, according to the staff, when reproducing them locally, a series of difficulties when arose.

The staff's accounts underscore that, at the beginning, they could not entirely understand the planning of—and the materials for the training sessions but that eventually they did end up understanding them. Both facilitators and yachachiq emphasized that one of their main tasks consisted in adapting materials to the particular language and uses of each location. The material—adapted by the staff—was used throughout the training sessions for users, organized in groups of financial education users (GUEF, in Spanish).

### Outcomes

As a result of the training and follow-up processes and in spite of the different limitations both in terms of contents and the processes' logistics, the staff expressed their conviction in that the newly acquired knowledge would be useful for most users.

The usefulness of this newly acquired knowledge can be clearly seen among Banco de la Nación savings accounts users. They have developed valuable expertise with respect to the use of their debit card for withdrawing their subsidy granted by the JUNTOS program. Trained users also mentioned other valuable uses, such as opening accounts in other formal financial entities and/or the negotiation of formal credit as well as money transfers.

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5 The personnel's time and dedication have changed throughout the execution of the project's activities.

6 See: FONCODES-UGOE 2013 and 2014. A specific contribution to the toolkit's creation process was the document MIDIS-FONCODES 2013.

In addition, the personnel were able to remember the ways in which the economic cycle of the participant rural households operates, in order to promote their insertion into the formal financial system. Something that stands out is that this cycle tends to move between the formal financial system and non-formal local options for managing money. Also, personnel acknowledge that the preference for non-formal options has not only decreased but that it might be eliminated with interventions such as the one carried out.

The personnel observe that most user households save small amounts of money in order to reinvest them in short term or very short term activities. As a rule, these households do not have natural resources or other assets that could allow them to think about businesses of greater horizon. In spite of the training sessions, it is acknowledged that, in such scenario, provisional savings in it of themselves do not pursue clear objectives. At the same time, it is also acknowledged that there is an aversion to risk with respect to formal credit. The staff only identified a few households with ongoing businesses that have saved for future investments and that have learned to take advantage of the possibilities that the formal financial offers them for financing their ventures, even with short-term micro-credits.

In the end, the staff contributed to the policy discussion; specifically, with respect to the different alternatives available for carrying out a long-term intervention, within the framework of promoting inclusion into the formal financial system. For example, with regards the limited assets the population

in these locations have, and the need to stimulate whatever objectives they can achieve taking into account said population's particular circumstances.

### IDEAS TO REFLECT UPON

In spite of being a brief and qualitative study centered only in three locations of the Haku Wiñay's intervention, it has been possible to verify the restrictions that the visited territories present in relation to the promotion of profitable economic activities. In this sense, it has also allowed to identify restrictions to the economic basis for promoting the inclusion of the population into the formal financial system in a wider sense. That is, in such a way they can profit from all the opportunities that the formal financial system offers.

There is no doubt that the future challenge in the design of any type of intervention is not only planning the training process and preparing a methodology that will allow participants to take advantage of the opportunities the formal financial system have to offer. Policies with solely such objectives risk reaching a tangible limit, if they do not carry out any parallel work for promoting households' possibilities for generating income.

In order to have self-sustainable rural household economies it is necessary to involve a diversity of activities and sectors, that will allow to overcome the limitations brought about by a specialization in farming production with evident restrictions. This exceeds the boundaries of the analyzed component, but it is aligned with the joint design of Haku Wiñay. This can be stated in



spite of it being merely considered a required contribution and in spite that there still so much to do and complement.

With respect to Haku Wiñay's financial abilities promotion component itself, it can be concluded that it has had a series of drawbacks and difficulties throughout its execution. Nevertheless, it is evident that it has contributed to establish a basic foundation for the population in the intervention areas to start becoming a part of inclusion processes into the formal financial system and benefit from the advantages the system offers. However, the task of designing and executing complementary interventions remains in order to take advantage of the progress achieved and be able to speak of the full inclusion of rural homes into the formal financial system.

The first part of this task is in the hands of the Haku Wiñay's staff in charge of executing this component. The reflection that arises from the gathered testimonies and observations points out precisely towards the preparation of this staff. For example:

- It is very important that the staff is trained in financial inclusion topics; but it would also be very useful to create spaces for exchanging experiences. This would allow to take advantage of the progress made collectively and to make each training process better than the previous one.
- It is necessary to improve the staff's teaching approach. Specifically, working for and achieving a better command of the teaching approach for training adults in the intervention zones. In spite of the efforts

made to date, there is no doubt that the specific situations found in each territory have presented challenges vis-à-vis the teaching approach. This has in turn forced the staff to reconsider what had been planned and designed. However, there is still a need for innovative designs that adjust to the demands of the population in these territories that, as it's been shown, present serious difficulties when achieving the so-desired financial inclusion.

- Local networks need to be strengthened. An example are formal micro-finance institutions that carry out intense promotion work for its products in rural areas. In this context, it is feasible and prudent to work jointly in the design of ad hoc financial products that will benefit both parties involved in the financial relationship, both the population and the micro-finance institutions. At the same time, it should not be overlooked that the project Haku Wiñay can take advantage this momentum in the micro-financial sector in order to develop its training processes.

Finally, the project has the opportunity to take advantage of other local networks; for example, strengthening of a local public authority involved in the promotion of local economic development. Even if each territory has its particularities, there is no doubt that, in principle, it is possible for Foncodes to contribute to strengthening district municipalities in order for them to have better skills to improve their work. Economic development efforts should not to remain as a strictly productive matters; they should provide permanent advice to

the population, specifically in relation to the use of opportunities offered by the formal financial. As of now, the latter has remained in the space of training workshops that have a specific timeframe.

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