

# CCTS AND FINANCIAL ACCESS: INCREASING THE BANG FOR EACH TRANSFERRED BUCK?\*

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## **Abstract**

This paper discusses the potential benefits and challenges that may arise if CCT programs were to deposit the transfers that they give their recipients directly into savings accounts. Over 33 countries around the world use CCT programs as a strategy to fight poverty. Depositing the transfers into a savings account could give millions of households access to the formal financial system. Using the scarce evidence to date, we highlight opportunities that could help ensure that the union of CCTs and formal savings accounts brings financial inclusion to their recipients.

*Keywords:* Conditional cash transfers; Formal savings accounts; Financial inclusion

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## 1 Introduction

Because of its potential effects on production, investment, technology choice, and inequality, access to the financial system is essential in today's economies. The benefits of having access to the financial system are not limited to a particular segment of the population. Large corporations and the wealthy benefit from having access to financial services, but so do microentrepreneurs and the poor. In fact, access to the formal financial system helps the world's poorest people to escape poverty (Aghion and Bolton 1997; Banerjee 2004; Banerjee and Newman 1993). Unfortunately, the poorest segments of the world population have inadequate access. For instance, in high-income countries, 89% of adults have an account at a formal financial institution; only 24% of adults living on less than \$2 a day have an account (Demirguc-Kunt and Klapper 2012). Thus, the poor use imperfect substitutes that are generally more expensive and/or less efficient (Collins, Morduch, Rutherford and Ruthven 2009; Rutherford 2000).<sup>1</sup>

This paper discusses offering access to the formal financial sector to the poorest segments of the population through savings accounts via an institutional change in the operation of conditional cash transfer (CCT) programs. Specifically, we discuss the potential benefits and challenges that may arise if CCT programs were to deposit recipients' transfers directly into savings accounts. Using the scarce evidence to date, we highlight opportunities for CCTs and formal savings accounts to bring financial inclusion to their recipients.

With CCT programs in more than 33 countries around the world (Bassett 2008), this institutional change could affect millions. In Latin America alone, CCT programs benefit about 27 million households (Maldonado, Moreno-Sánchez, Giraldo and Barrera 2011) or over 111 million individuals. Based on program requirements, the recipients are poor; it is likely that a

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<sup>1</sup> Among the substitutes used by the poor are cash savings, safekeeping, savings clubs, ROSCAs, borrowing from family, neighbours, employers, moneylenders, etc. (Collins et al. 2009).

large number are excluded from formal financial systems.<sup>2</sup> Uniting CCTs with savings accounts could have dramatic benefits for recipients' lives.

This is a relatively new topic. Several CCT programs have begun changing their payment systems, depositing transfers into recipients' bank accounts (Maldonado et al. 2011). However, we know little about the phenomenon. Conceptually, linking CCT programs with savings accounts seems to offer a win-win-win outcome for all parties (i.e., the social programs, recipients, and the financial intermediaries). The scarce research on the topic provides (some) support for this idea, highlighting opportunities to get more bang for each transferred buck.

## **2 Access to the formal financial system via savings accounts**

Per data from the Global Findex Database of the World Bank (Demirguc-Kunt and Klapper 2012), access to the formal financial system differs greatly between the rich and the poor, both across and within countries. In high-income countries, 89% of adults have an account at a formal financial institution whereas, in developing countries, the figure is 41%. Among adults living on less than \$2 a day, the figure shrinks to 24%. Access differs by gender, education level, age, and rural or urban residence.<sup>3</sup> Among the barriers to formal savings are lack of enough money to save, transaction costs (e.g., bank fees, distance, necessary documents, etc.), lack of trust in formal financial institutions, regulatory barriers, low financial literacy, social constraints, and behavioural biases, such as lack of self-control (Demirguc-Kunt and Klapper 2012, Karlan, Ratan and Zinman 2014). As a result, only 12% of adults living on less than \$2 a day report

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<sup>2</sup> Considering the list of 32 countries reported in Bassett (2008) plus Uruguay and the data reported in Demirguc-Kunt and Klapper (2012), 16% of adults in the poorest income quintile have a formal savings account.

<sup>3</sup> For adults living on less than \$2/day, data show that 27% of men have an account whereas only 20% of women do; the figures are 15%, 35%, and 54% for individuals with primary or less, secondary, and tertiary education or more, respectively; 29% of individuals 25-64 report having an account whereas only 16% and 18% of younger and older individuals do, respectively; finally, the difference between rural and urban areas is 22% vs. 35%.

having saved in the previous year in a formal savings account (Demirguc-Kunt and Klapper 2012).<sup>4</sup>

Improving the poor's access to the financial system has been a decades-long, worldwide goal. In developing countries, and particularly for individuals living on less than \$2 a day, much effort has been put into facilitating access through microcredit. However, poor households not only want and need loans; they also want and need to save (Collins et al. 2009).

For poor households, proper money management is crucial because they have little and, thus, the margin for error is minimal. In addition, poor families often face insecurity about the certainty and regularity of income. Increasing access to financial tools in the formal financial system can facilitate money management, and decrease anxiety about meeting basic needs. In turn, they could devote more energy to children's education, health, family, etc. (Chiapa, Prina and Parker 2014; Mani, Mullainathan, Shafir and Zhao 2013; Mullainathan and Shafir 2009).

Following this reasoning, a consensus has begun to form among the academic community, governments, and donor organizations that, indeed, the poor require a varied basket of financial products and services beyond the provision of credit, which may not be the best introduction to the formal financial system. Rather, providing access to formal savings accounts is gaining popularity as a preferred way of entering this system.<sup>5</sup>

Formal savings accounts—unlike credit—seem to improve the welfare of poor households in developing countries (Banerjee 2013). Specifically, expanding access to formal savings accounts reduces poverty (Aportela 1999) and empowers women (Ashraf, Karlan and

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<sup>4</sup> Individual characteristics also affect whether individuals save in a similar fashion because they influence whether an individual has an account or not.

<sup>5</sup> This position is not particularly new. It began to be promoted more than 40 years ago by some economists, such as Adams (1978), McKinnon (1973), and Shaw (1973). However, in recent years, it has gained strength both within academia and among donors. Recently, Robinson (2001) argued in favour of saving and various entities, such as CGAP; foundations such as the Citi Foundation, the Ford Foundation, and the Bill & Melinda Gates Foundation have given a major push to the promotion of savings, particularly in rural areas.

Yin 2010); promotes entrepreneurial investment and activity (Dupas and Robinson 2013b); increases household's ability to resist and cope with health shocks (Dupas and Robinson 2013a and Prina 2014); allows households to reallocate expenditures across categories (e.g., spending more on education, fish and meat) (Prina 2014); and increases agricultural investment and production (Brune, Giné, Goldberg and Yang 2013). We also know that simple savings accounts (offered at low or no cost) serve the poor as transactional accounts to facilitate a more efficient management of their (irregular) liquid funds (Rutherford 2000).<sup>6</sup> By contrast, the latest and most rigorous impact evaluations on microcredit have not been shown to have transformative effects on household welfare (Banerjee, Karlan and Morduch forthcoming).

### **3 Conditional cash transfer programs**

In the late 1990s, Mexico and Brazil pioneered the current generation of CCT programs.<sup>7</sup> Today, CCT programs exist in poor countries (e.g., Kenya), emerging countries (e.g., India and Turkey), and even in developed countries like the U.S., France, and Britain. CCT programs are particularly popular in Latin America; most countries in the region have or have had some, and these serve about 21% of the population (Maldonado et al. 2011).

The main feature of CCT programs is that they transfer money to poor households on the condition that the households invest in their children's human capital (education, health, and nutrition). Most programs explicitly or implicitly designate women as recipients.<sup>8</sup> The structure of the transfers varies by country; however, most CCT programs transfer amounts that depend on

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<sup>6</sup> Recently, many countries that had not yet offered formal savings services to poor households have amended their legislation to promote their availability at low or no cost and that require low monthly average balances. Three examples are simplified accounts in Brazil, low-value accounts in Colombia, and basic payroll accounts in Mexico.

<sup>7</sup> Public government transfers to low-income households with behavioral requirements attached existed previously.

<sup>8</sup> As mentioned in Yoong et al.'s (2012) review on the impact of economic transfers to women vs. men, targeting women as recipients improved household well-being and children's health and educational outcomes. Studies suggest that women are likely to use resources to improve family well-being, especially that of children (e.g., Duflo 2003; Haddad, Hoddinott and Alderman 1997; Handa and Davis 2006; Rawlings and Rubio 2005; Thomas 1990).

some household demographic characteristics, such as the number, ages, and gender of children.

The programs' main objective is to break the intergenerational transmission of poverty. However, Fiszbein and Schady (2009) argue that another objective is to ensure a minimum consumption level for poor households. In general, CCT programs have helped to streamline and integrate social assistance and reduce the role of non-targeted programs and subsidies.<sup>9</sup>

### *3.1 How CCT programs work<sup>10</sup>*

Similar to other (and older) social programs, the target population of CCT programs usually comprises the poorest individuals. However, a novel aspect of these programs is the effort their administrators put into minimizing inclusion and exclusion errors. Generally, CCT programs deliver transfers to their recipients every two months to reduce transaction costs. These costs vary by program depending on each country's geography and recipients' locations. To minimize such costs, some programs have begun to collaborate with banking institutions to deliver transfers.

Nevertheless, currently, there is great heterogeneity in terms of payment systems used by CCT programs to deliver transfers to their recipients. The three major payment systems are (i) cash, (ii) prepaid cards, and (iii) savings accounts (Maldonado et al. 2011). Cash payments are made on pre-announced days directly in the locality, either using the infrastructure available in each locality or through a banking institution—even if recipients are not customers of the institution or have no relationship with it. Prepaid debit cards have emerged to reduce complex logistics, administrative costs, and the risk involved on payout days for recipients and employees

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<sup>9</sup> For example, Brazil's program united programs that targeted education and had food and gas subsidies. PROGRESA (Mexico) integrated a variety of food subsidies, (e.g., tortilla subsidy) (Ferreira and Robalino 2010).

<sup>10</sup> This subsection is based on Fiszbein and Schady (2009), in which a more detailed description of the design and implementation of CCTs can be found.

administering the payments. Finally, depositing transfers into savings accounts reduces transaction costs (e.g., prepaid cards). However, when transfers are paid via savings accounts, CCT recipients have access to a savings account and, hence, are linked to a bank.

The best payment method depends on the social, economic, cultural, and institutional context of each program. Although payment systems developed to date work well in most cases (Fizbein and Schady 2009), there are a number of challenges that have emerged. For example, cash has been criticised for its low transparency and scope for clientelism (Duryea, Schargrodsky 2007; Lindert, Linder, Hobbs and Biere 2007).<sup>11</sup> These problems are often cited when advocating for the use of the banking system to deliver transfers, because public authorities would not hand out transfers directly to recipients. Some evidence supports this. Recipients of Argentina's Jefes y Jefas de Hogar program who had used bribes to access the program decreased from 3.6 to 0.3% with the move to electronic delivery of the transfers (Duryea and Schargrodsky 2007).

### *3.2 Impact of CCT programs*

The positive impact of CCT programs on a wide range of outcome variables has been extensively documented;<sup>12</sup> these variables include health,<sup>13</sup> nutrition, poverty, inequality,<sup>14</sup> and education.<sup>15</sup> Moreover, CCT program participation reduces the probability of child labour.<sup>16</sup>

Evidence also shows that transfers granted by CCT programs relax credit restrictions and

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<sup>11</sup> Glewwe and Olinto (2004) report that, in Honduras, executing payments was difficult in the early years after implementing the Honduran CCT due to lack of coordination between government and service providers.

<sup>12</sup> For a summary of the most important findings see, for example, Arnold, Conway and Greenslade (2011); Parker, Rubalcava and Teruel (2008); and Schady and Fizbein (2009).

<sup>13</sup> Evidence of positive impacts can be found in Attanasio, Fitzsimmons, and Gomez (2005), Behrman and Hoddinott (2005), Gertler (2000), Maluccio and Flores (2005). It is noteworthy to mention, however, that some studies have also found evidence of zero impact (Hoddinott 2008; Paxson and Schady 2008) and, surprisingly, for the case of Brazil, negative effects (Morris, Olinto, Flores, Nilson and Figueiró 2004).

<sup>14</sup> Arnold, Conway, and Greenslade (2011), and Fizbein and Schady (2009).

<sup>15</sup> Attanasio et al. (2005), Filmer and Schady (2009), Veras Soares, Perez Ribas and Guerreiro Osório (2010), and Schultz (2004).

<sup>16</sup> Edmonds and Schady (2012); Filmer and Schady (2009); Maluccio (2005); Skoufias and Parker (2001).

enable their recipients to better exploit their potential. Gertler, Martinez and Rubio-Codina (2012) found that recipients of PROGRESA in Mexico invested part of their transfers in productive assets. This translated into an increase of almost 10% of farm income after 18 months in the program. Finally, other studies have found transfers to protect against negative shocks.<sup>17</sup>

As mentioned earlier in Section 2, access to formal savings accounts has positive effects on poverty reduction, health, nutrition, education, investment and ability to cope with shocks. Hence, the impact of CCT programs appears similar to that of access to the financial system via savings accounts.

#### **4 Conditional cash transfer programs and formal savings accounts**

Data from the Global Findex Database of the World Bank (Demirguc-Kunt and Klapper 2012) for the 33 countries with existing CCT programs are reported in Appendix Table 1. In these countries, only 30% of adults (26% of women) report having an account at a formal financial institution. For adults in the poorest income quintile (i.e., those most likely to be the target population of a CCT program), the figure is just 16%. Finally, only 13% of adults report having saved in the previous year in a formal savings account. Hence, depositing CCT transfers could help bank millions of people and perhaps initiate their inclusion in the formal financial system.<sup>18</sup>

##### *4.1 Potential benefits and challenges for CCT programs*

Uniting CCT programs and savings accounts could generate many benefits for CCT programs.

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<sup>17</sup> See, for example, Chiapa (2014), García-Verdú (2002), de Janvry, Finan, Sadoulet, and Vakis (2006), Maluccio 2005, and Skoufias (2002).

<sup>18</sup> The OECD defines financial inclusion as “the process of promoting affordable, timely and adequate access to a wide range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education with a view to promote financial well-being as well as economic and social inclusion” (Atkinson and Messy 2013).

First, CCT programs can reduce their transfers' delivery costs. Second, it can increase the transparency with which these programs operate by curbing corruption along the delivery chain and, hence, reducing the drain of resources (de los Ríos and Trivelli 2011). In Brazil, the transition to electronic delivery of the transfers of the Bolsa Familia program reduced delivery costs from 14.7 to 2.6% of the value of transfers (Lindert et al. 2007). Also, as mentioned in Section 3.1, electronic delivery reduced the number of CCT recipients reporting having given a bribe to access the program in Argentina (Duryea and Schargrodsky 2007). The potential disadvantage of depositing transfers into beneficiaries' savings account is fewer points of contact between beneficiaries and program officials, which could reduce opportunities to monitor compliance, verify basic data of the recipients, etc. (Lindert et al. 2007).

#### *4.2 Potential benefits and challenges for CCT program recipients*

The evidence from Mexico, Colombia, and Argentina shows that electronic transfers reduce recipients' costs when receiving transfers (Bill & Melinda Gates Foundation 2009; Duryea and Schargrodsky 2007; Maldonado and Urrea 2010).<sup>19</sup> When transfers are made via direct deposits into formal savings accounts, CCT recipients can save some of their transfers safely away from home, thus protecting the resources from family, neighbours, friends, and thieves. Survey data collected by Chiapa and Prina (2014) for a sample of 4,864 Oportunidades recipients show that 12.4% saved in the account in which they received their CCT.<sup>20</sup> Additionally, as discussed in

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<sup>19</sup> Estimates from a pilot program in rural Mexico show that direct deposits into savings accounts saved recipients of Oportunidades an average of 3-6 hours of travel and \$3 in travelling costs (Bill & Melinda Gates Foundation 2009). Moreover, Maldonado and Urrea (2010) report reductions in the amount of time spent waiting to receive the transfer from 259 minutes (i.e., for cash) to 68 minutes (i.e., from an ATM), and to 41 minutes when withdrawals are made at POS terminals in Colombia. Duryea and Schargrodsky (2007) report that waiting times in Argentina decreased from 251 minutes (i.e., for cash) to 43 minutes when the transfer began to be delivered through electronic cards.

<sup>20</sup> A similar survey conducted two years earlier on another sample of Oportunidades recipients (INSP 2012), showed that only 1% saved in the account in which they received their CCT. Hence, it appears that, in a span of two years, the delivery of CCTs via savings accounts increased the accounts' usage.

Sections 2 and 3, access to savings accounts could complement the positive effects that CCT programs have been documented to produce. Evidence also suggests that access to better financial technologies, like formal savings accounts, enables households to worry less about day-to-day finances and focus on other issues such as children's education, health, family, etc. (Chiapa et al. 2014; Mani et al. 2013; Mullainathan and Shafir 2009). Finally, as recipients are absorbed into the formal financial system, they can access other financial products (e.g., other savings products, credit, insurance, and wire transfers). Kaiser, Lever and Salcedo (2012) found that a Mexican reform that forced banks to offer payroll accounts without fees for basic services increased the probability of at least one household member holding a credit card by at least 7.7%.

Nevertheless, some costs and unintended effects could arise when recipients receive their CCTs via electronic transfers. First, recipients might have to pay a fee to check their balance or withdraw funds.<sup>21</sup> Second, although ATM withdrawal might save time and be convenient, it may not be possible because ATMs usually lack small banknotes.<sup>22</sup> Third, for some recipients, banking facilities might be far away. Fourth, access to a savings account may crowd out informal transactions, reducing the level of mutual insurance and diminishing the effect of access to savings accounts on welfare (Ligon, Thomas, and Worrall 2000; Platteau 2000).<sup>23</sup>

#### *4.3 Potential benefits and challenges for financial institutions*

There are at least three potential benefits for financial institutions that the union between CCT programs and savings accounts could create. First, providing a savings account to each CCT

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<sup>21</sup> For example, for Oportunidades, most bi-monthly transfers are ~USD \$111. It is free to withdraw or check a balance at the recipients' institution. However, this institution has fewer than 24 branches per state. Withdrawals and balance inquiries at other banks cost USD \$0.65-3.00 and USD \$0.25-1.00, respectively.

<sup>22</sup> Alternately, having a portion of the transfer that cannot be withdrawn could act as a forced savings mechanism.

<sup>23</sup> That is because households with access to a savings account might accumulate a buffer stock that can be used to smooth consumption or to cope with negative shocks, instead of using informal financial arrangements.

recipient can help bank individuals on a massive scale, providing financial institutions with a large pool of new customers. Second, a fraction of the recipients' transfers is likely to remain deposited (and accumulate) in their accounts for some time,<sup>24</sup> allowing the financial institution to intermediate these resources. Third, the regularity of the transfers guarantees a continuous flow of resources (from the CCT program to the institution) and a continuous (potential) interaction with the recipients.

Nevertheless, there are relevant challenges these institutions may need to overcome. Although providing savings accounts is a low-risk service, it also brings low (or perhaps even negative) returns. Hence, the union of CCTs and savings accounts may not be a trivial business case to make. Financial institutions may need to seek and/or develop technologies and products that enable them to offer attractive financial services to the poor (e.g., defaults and commitment mechanisms, reminders, etc.) while generating profits (Ashraf et al. 2006 and 2010; Bernatzi and Thaler 2004; Karlan, McConnell, Mullainathan, and Zinman 2010; Madrian and Shea 2001). An additional challenge is that CCT recipients are inexperienced banking clients; their likely lack of financial education, mis- and dis-information about the products given (and potentially offered), and their lack of trust could be difficult to resolve. Finally, regulatory barriers frequently include requirements such as “know your customer” rules (e.g., proof of name, date of birth, nationality, and address), which can hinder recipients' participation in the banking system (Karlan et al. 2014). CCT programs should help beneficiaries to overcome these regulatory barriers.

## **5 Empirical evidence about depositing CCTs into formal savings accounts**

To date, a number of CCT programs have started to deposit transfers directly into savings

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<sup>24</sup> Reasons to save require accumulation of resources to make large infrequent bumpy withdrawals. For example, Chiapa and Prina (2014) show that 34% of Oportunidades beneficiary households saves for future health expenditures and 24% for future education-related expenditures.

accounts.<sup>25</sup> As a result, millions of households have been “banked.” However, the limited empirical evidence that is available suggests that there is still a long way to go before the union of CCTs and savings accounts achieves CCT recipients’ inclusion into the financial system. A few studies have tried to illuminate the effect of the union on recipients. We are not aware of any attempt to analyse the effect on the CCT programs and on the financial institutions involved.

Being banked is a necessary but not a sufficient condition for being part of the financial system. Financial inclusion refers not only to access to financial products and services but also to their educated use (Atkinson and Messy 2013).<sup>26</sup> Available data suggest that there are issues regarding the effective usage of the savings accounts given to CCT recipients. Hence, the union of CCTs and savings accounts has not yet been able to bring massive inclusion of poor individuals into the financial system of their respective countries.

The case of Oportunidades in Mexico is useful to highlight these issues. Specifically, while all recipients of Oportunidades had been banked by 2012, administrative data from the program shows that only the 15% living in urban, semi-urban, or rural areas close to an urban zone were able to use their accounts. The lack of bank branches and POS with the technology to provide banking services impedes account use for recipients living in rural areas. Hence, lack of banking facilities and technology seems a major hurdle for financial inclusion.

Data collected by Chiapa and Prina in 2014 for a sample of recipients living in urban and semi-urban areas (i.e., able to use their accounts) show that 51% of recipients had not saved during the previous 12 months due to lack of money to set aside. Further, from the 49% that

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<sup>25</sup> In 2010, at least six CCT programs deposited their transfers into a savings account: Jefes y Jefas de Hogar in Argentina, Bolsa Familia in Brazil, Familias en Acción in Colombia, Apni Beti Apna Dhan in India, Oportunidades in Mexico, and Juntos in Peru (Zimmerman and Moury 2009; Seira 2010). Other Latin American CCT programs like Chile Solidario in Chile, BDH in Ecuador, and Protección y Desarrollo de la Niñez y Adolescencia Trabajadora in Guatemala were considering following the same path.

<sup>26</sup> See footnote 18 for the OECD’s definition of financial inclusion.

reported saving during the previous 12 months, only 25% had saved in the account in which they received transfers.<sup>27</sup> This means that 88% of the recipients used their CCT-linked bank accounts simply to withdraw money as soon as it became available. Hence, supply-side issues are not the only hurdles preventing financial inclusion; demand-side issues are also relevant.

In particular, mis- and dis-information and low levels of financial literacy may be behind the low usage rate of these accounts. Chiapa and Prina (2014) showed that the most common reasons why recipients did not save in their CCT-linked savings account were “somebody told me to withdraw all my money” (43%), “I’m afraid of being kicked out of the program”<sup>28</sup> (11%), “I’m afraid the government will keep my money” (11%), and “I don’t trust the bank” (9%). Further, only 51% of the recipients knew they could save in their CCT-linked accounts. Most beneficiaries did not know the fee to make a withdrawal. Moreover, 70% of the recipients did not know where to go to make a deposit. When asked basic financial literacy questions, recipients did not fare particularly well, either.<sup>29</sup> Thus, providing accurate information about the savings accounts’ characteristics and how to use them seems necessary to increase recipients’ use.

The lack of demand for savings accounts may also be attributable to some features of CCT programs’ design: levels of benefits given to recipients, seniority in the program, or the regularity of the payments. The amount of the transfers may be an issue because, in Mexico, about 50% of recipients report that they do not save due to lack of money to do so. In Peru, on the other hand, the main source of savings for Juntos recipients is their CCT (Trivelli et al. 2011). Hence, very poor recipients might have very little money to save. Indeed, there is a

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<sup>27</sup> In fact, 77% of the recipients that report saving have some informal savings (e.g., under the mattress, using ROSCAs, in the form of animals, etc.) and 59% of the savers, save *only* informally.

<sup>28</sup> Oportunidades recipients are not kicked out of the program if they save.

<sup>29</sup> Only 30% was able to compute the 10% of MXN \$1,250, the average bi-monthly transfer the recipients get. Also, just 43% answered correctly that if they were given a credit of \$100 pesos with a monthly interest rate of 2%, after three months they would owe more than MXN \$102. However, 75% correctly recognized that if prices rose and they kept their money under the mattress, in a few months they would be able to buy fewer goods.

positive correlation between the value of assets held by a household and its ability to save (Chiapa and Prina 2014). Seniority however, is not correlated with recipients' decision to save in CCT-linked accounts.<sup>30</sup> Finally, because all recipients receive a bi-monthly transfer, there is no time variation that could help us identify whether more or less frequent transfers are correlated with savings activity. Hence, some design features may be behind the low usage rate of the CCT-linked savings accounts, but more research is needed to identify them.

Overall, CCT recipients are not benefitting as much as they could from the union of CCTs and savings accounts. Scarce evidence suggests that simple changes might increase demand. For example, Peru's Juntos CCT program provides tailored financial education to help recipients use and manage their accounts, which helps them save (Trivelli, Montenegro and Gutiérrez 2011). Beneficiaries internalize the advantages of formal savings (e.g., security, privacy, and liquidity management), and the savings allows them to smooth consumption, handle emergencies, and accumulate resources for investments. Thus, tailored financial education could increase demand for formal financial products.

Furthermore, in addition to financial education, physical proximity to bank branches and low fees (i.e., low transaction costs) might increase use of savings accounts (Karlan et al. 2014; Prina 2014). Maldonado and Moreno-Sánchez (2010) pilot project on saving incentives (i.e., sweepstakes to multiply the amounts saved), *Mujeres Ahorradoras en Acción*, in Colombia, suggests this might be the case. While the program was in place, recipients were saving; however, when the incentives were eliminated, several recipients closed their accounts. This could signal that incentives outweighed high transaction costs.

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<sup>30</sup> The data from Chiapa and Prina (2014) do not include information on Oportunidades recipients' seniority. However, data from INSP (2012) do. The result reported comes from that data. One important drawback is that, at the time, only 1% of recipients living in urban and semi-urban areas were saving in their CCT-linked bank account.

## **6 Conclusion**

Not only could the CCT–savings union integrate millions of poor individuals into the formal financial system but it could also potentiate the welfare effects that CCT programs have been shown to have. Further, although each of the three parties in this union—CCT programs, recipients, and financial institutions—would have to overcome challenges to make it a reality, there are a number of potential benefits for each party.

This paper has highlighted both supply and demand issues that must be resolved to realize this union. In particular, even after individuals have been successfully banked, lack of banking facilities and technology can be major hurdles. On the demand side, recipients' level of poverty, lack of financial education, mis- and dis-information, and high transaction costs are all partly responsible for low usage rates of CCT-linked savings accounts.

Because CCT programs improve individuals' living standards, a greater number may be able to set aside some resources. Also, as banks expand and/or new banking technology emerges, transaction costs should decrease and more recipients should be able to gain access to their savings accounts, perhaps finding it more worthwhile to use them. Finally, along with opening accounts for CCT recipients, financial institutions should provide basic financial education and good explanations of how the accounts can be used.

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**Appendix Table 1: Account Penetration and Usage in Countries with a CCT Program**

Country	Share with an account at a formal financial institution			Share of adults saving in the past year using a formal account
	All adults	Poorest income quintile	Women	
Argentina	33	19	32	16
Bangladesh	40	33	35	17
Bolivia	28	12	25	17
Brazil	56	33	51	10
Burkina Faso	13	6	11	8
Cambodia	4	0	4	1
Chile	42	19	41	12
Colombia	30	9	25	9
Dominican Republic	38	19	37	16
Ecuador	37	22	33	15
El Salvador	14	1	10	13
Guatemala	22	8	16	10
Honduras	21	15	15	9
India	35	21	26	12
Indonesia	20	8	19	15
Jamaica	71	71	67	30
Kenya	42	19	39	23
Mexico	27	12	22	7
Morocco	39	-	27	12
Nicaragua	14	4	13	7
Nigeria	30	12	26	24
Pakistan	10	5	3	1
Panama	25	18	23	12
Paraguay	22	4	23	10
Peru	20	6	18	9
Philippines	27	4	34	15
Sierra Leone	15	4	13	14
Tanzania	17	3	14	12
Turkey	58	46	33	4
Uganda	20	7	15	16
United States	88	74	84	50
Uruguay	24	7	24	6
Yemen, Rep.	4	0	1	1

Source: Demirguc-Kunt and Klapper (2012).