

Delivering Conditional Cash Transfers via Savings Accounts¹

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Improving the financial inclusion of the poor is a global challenge that, if overcome, could help many to escape poverty. To tackle this challenge, some conditional cash transfer (CCT) programmes have started depositing transfers directly into beneficiaries' savings accounts.

One such programme is *PROSPERA*, formerly *PROGRESA/Oportunidades*, in Mexico. As of January 2012, all six million recipients of the programme received transfers directly into savings accounts at the *Banco del Ahorro Nacional y Servicios Financieros* (BANSEFI). Thus, most of the poorest Mexican households have been incorporated into the formal financial system. However, empirical evidence suggests there is still a long way to go before *PROSPERA* recipients can be considered included in the Mexican financial system.

Target problem

Having a bank account is a necessary, however not sufficient, condition for being included in 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). Available data suggest there are issues regarding the effective use of the savings accounts given to *PROSPERA*'s recipients. First, only recipients living in urban, semi-urban, or rural areas close to an urban zone are able to use their accounts.

These recipients represent just 15 per cent of all *PROSPERA* recipients. The lack of bank branches and points of sale with the technology to provide banking services impedes account usage in rural areas. Hence, the lack of banking facilities and technology seems to be a major hurdle for real financial inclusion.

Second, demand-side issues also seem to be relevant in this regard. 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 per cent of recipients did not save (formally or informally) during the previous 12 months due to a lack of money available to set aside.

Furthermore, of the 49 per cent who reported saving during the previous 12 months, only 25 per cent saved in the account in which they received transfers. This means that 88 per cent of the recipients used their bank accounts simply to withdraw their transfers once they became available.

Mis- and dis-information and low levels of financial literacy may be behind the low usage rate of these accounts. The most commonly stated reasons why recipients did not save in their savings accounts are:

- "Somebody told me to withdraw all my money" (43 per cent);
- "I'm afraid of being kicked out of the programme" (11 per cent);
- "I'm afraid the government will keep my money" (11 per cent); and
- "I don't trust the bank" (9 per cent).

In addition, only 51 per cent of the recipients knew they could save in their accounts. Most beneficiaries were not aware of the associated withdrawal fees. Moreover, 70 per cent did not know where to go to make a deposit. When asked basic financial literacy questions, recipients did not fare well either.

Policy implications

As previously mentioned, there is still a long way to go before CCT recipients who receive their transfers directly into savings accounts can be considered included in the financial system. There are important supply issues that need to be addressed, but solving them may be expensive. Additionally, it seems fruitless to invest in solving them if very few recipients will demand the newly offered services afterwards. Hence, more attention should be devoted to increasing usage of the products offered.

Data from Chiapa and Prina (2014) suggest that providing accurate information about the characteristics of the savings accounts offered and how to use them seems necessary to increase their use. Providing this information should not be expensive. Furthermore, CCT programmes could inform their recipients that saving is a good habit, carries a number of benefits, and is not penalised by the programme. Banks, on the other hand, should encourage the recipients to save in the accounts offered, and ensure they understand that they are the sole owners of the account, that their money is protected by the government, and that any information pertaining to the account is confidential. The costs of doing this are also quite low.

References:

Atkinson, A. and F. Messy (2013). 'Promoting Financial Inclusion through Financial Education: OECD/INFE Evidence, Policies and Practice', *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 34. Paris, Organisation for Economic Co-operation and Development.

Chiapa, C. and S. Prina (2014). 'Encuesta de las Características de los Hogares e Inclusión Financiera 2014'.

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