PROMOTING MICRO-SAVINGS AMONG THE LOWEST-END OF THE INCOME SEGMENT THROUGH CONDITIONAL CASH TRANSFER PROGRAMS IN MEXICO

Luis Treviño Garza

Executive Summary

Governments, multilateral agencies, NGOs, and private organizations are debating whether linking savings products with Conditional Cash Transfer (CCT) programs financially empowers beneficiaries, promotes asset building within their households, and helps them overcome poverty in the long run without weakening the original purpose of the CCTs.

The objective of this document is to advocate promoting savings products and financial literacy programs targeted to the low-income segment of the population through CCT programs. In particular, this memo argues that policymakers from the Oportunidades CCT Program should develop the necessary regulations and policy mechanisms to jointly deliver savings products and financial literacy programs via CCT programs.

Background

What has been done?

Oportunidades Program for Human Development (Oportunidades CCTs Programs) are amongst the most successful, well-managed and assessed human development programs through conditional cash transfers (CCTs) in Mexico and abroad, providing approximately $3.2 billion U.S. dollars annually in direct transfers to more than six million families in the lowest income brackets in order to help them secure basic levels

---

1 This policy memo is submitted in fulfillment of the requirements of the Fletcher School Financial Inclusion Leadership Program.
2 I would like to thank the Bill & Melinda Gates Foundation and The Fletcher School of Law and Diplomacy from Tufts University for giving me the opportunity to participate in the Financial Inclusion Leadership Program.
I also want to thank The Fletcher School Financial Inclusion Leadership Program staff for all the support and knowledge they provided all of the participants during and after our two week Program at Boston last April, and finally I thank Ignacio Mas, Kim Wilson, Nick Sullivan, Miranda Fasulo, Matu Mugo, Narda Sotomayor, Pia B. Roman and Generose Tabaro for their thoughtful comments for improving this Policy Memo.
The author assumes the responsibility of the content of this publication, which might not necessarily reflect the position of any of the institutions mentioned or represented here including the CNBV, SEDESOL - Oportunidades, Bansefi, Bill & Melinda Gates Foundation, and The Fletcher School of Law and Diplomacy.
3 Oportunidades CCTs Program sponsored by the Mexican Ministry of Social Development includes three different social & human development programs:
“Oportunidades” bringing direct transfers to women for the family income, scholarships for kids and youngsters (to keep them in school), and health care; Food Support Program (PAL) money transfers for a better diet, food supplements for babies (0 – 2 years old), etc.; and, “70 & more”, support for old age people living in rural locations (<= 30,000 inhabitants). Each program includes technical assistance at health care clinics and at public schools.
of education, nutrition, and health care for their families. Its goal is to promote human capital investment at the family level.

In 2008, Oportunidades CCTs Programs started a series of pilots to change the distribution strategy of these transfers in order to bring the beneficiaries with electronic devices—such as debit cards at urban locations and prepaid electronic cards at the rural locations. These pilots were looking to accomplish two main objectives. First, to reduce the transactional costs to beneficiaries in terms of distance and time spent for receiving the subsidy.¹ Second, to provide an electronic financial mechanism to foster financial inclusion to those beneficiaries who typically are amongst the most financially excluded.

![Graph showing time spent vs. transactional expenses before and after pilot]


Under this new strategy, the CCTs are being made through three main channels that go more deeply into very small and dispersed towns within the communities and beyond the municipality Head-Towns:⁵ through Diconsa communal stores (in rural areas) and Telecomm offices (in urban areas),⁶ through Bansefi’s own 492 branch network and through L@ Red de la Gente (Cooperatives and MFIs associated with Bansefi) with 1,671 points of contact.

By the end of 2010, Bansefi helped to deliver the Oportunidades CCTs Programs through 720,000 prepaid cards (e-wallets) with a sophisticated biometric identification system.

---

¹ The general procedure for delivering the CCTs for many years had been to deliver them up to the municipality head-town from each region, so on many occasions the beneficiaries had to spend on average as much as 4+ hours and 20-25% or $5+ U.S dollars on transportation costs.
² Head-Towns or Cabeceras municipales, formerly were the towns used as points of money dispersion without going further into the communities' locations.
³ Both DICONSA and Telecomm recently signed contracts with Bansefi as banking agents under the CNBV/SHCP banking regulation.
(electronic fingerprint recognition) to avoid fraud to beneficiary families at rural areas, on an estimated rate of delivery of 75,000 new debit cards by each month. Furthermore, there are about 1,120,000 debit cards attached to a deposit account where beneficiaries receive the Oportunidades CCTs Programs in urban areas. However, it remains a challenge to bring an additional 1,000,000 Oportunidades beneficiary families a debit card though they might have a cardless savings account. This new electronic technology is brought by Bansefi and the electronic dispersion mechanisms are made through the National Treasury, both institutions dependent on the Ministry of Finance.

Currently, about 3.7 million beneficiaries receive Oportunidades CCT Programs through direct cash payments, mainly through Diconsa stores and Telecomm offices. Bansefi and Oportunidades have the challenge under a recent government mandate to bring these families into the electronic dispersion transfers schemes within the next two years. By the end of 2012 it is expected that more than 6 million families will be receiving their conditional transfers electronically. There are still many challenges to address that go beyond the scope of this document to achieve this task: i.e., raising costs on the delivery of direct transfers for DICONSA due to the requirement from Oportunidades during this transition period to still deliver the whole quantity of the resources in cash up to the point of the stores (even though the beneficiaries receive their disbursements and can cash it through electronic devices); still there is a need for more training for the DICONSA clerks that perform the electronic operations at POS (although they are highly motivated for delivering this service); and, most importantly, there remains a lack of connectivity to the majority of the DICONSA stores, i.e., about 5,300 DICONSA stores deliver transfers through Bansefi in cash due to the lack of connectivity.

7 Bansefi. Banco del Ahorro Nacional y Servicios Financieros is the state-owned savings van that has its own network of 492 branches in the lowest income municipalities of Mexico. It supports the development of a network of more than 400 associated popular financial providers as Cajas and Cooperatives with 1,671 branches and more than 4,000 points of sale terminals (POS) at DICONSA stores.
9 After the successful pilots the Mexican Government through the Ministry of Finance have subscribed a series of commitments between the different government stakeholders involved to guarantee the public an electronic dispersion mechanism for delivering these resources.
Despite the challenges, families receiving payment electronically are already experiencing reduced transaction costs.\textsuperscript{10} And, by taking advantage of these new channels, especially those in rural areas, the Federal Government at this moment has the opportunity to go a step further in financial inclusion by promoting an additional public policy enabling savings products and improving financial literacy among this relatively vulnerable segment of people. These last two social policy tasks are the aim of the present document.

Bansefi itself has a range of savings products aimed at 2.5 million families as clients in different income segments of population, but predominantly in the lowest-end of income segments. An estimated 62.2\% of Bansefi’s clients or about 1.8 million families are beneficiaries of Oportunidades CCTs Programs, and among these people, an estimate of 15.2 \% have a savings account with Bansefi, independent of their status as an Oportunidades beneficiary.\textsuperscript{11} It is estimated that about 95\% of the CCT beneficiaries who have a savings account held a positive balance in these accounts, and from them, about 15\% make deposits from other income sources. Additionally, there are about 134,000 beneficiaries who hold an investment time-deposit account and, although they

\textsuperscript{10}The reduction in transaction costs can be proven in a reduction of the time of transportation from an average of 2.5 hours to 30 minutes and the time for receiving the subsidy from an average of 5 hrs 9 min. to 16 minutes. Source: Oportunidades through the 2008 DICONSA pilot.

\textsuperscript{11}Bansefi, Bansefi - DAI. Encuesta sobre preferencias y necesidades de usuarios de productos y servicios financieros del Sector de Ahorro y Crédito Popular. Informe de Análisis de Resultados. Septiembre 2010.
typically maintain a low balance ($9.4 million pesos out of 134,000 accounts in 2009), these balances have an average maturity of 12 months.\(^\text{12}\)

Other relevant issues revealed in a recent Survey among Bansefi’s clients, including those clients who are Oportunidades beneficiaries are the following:

- About 79% of Bansefi’s recipients who are Oportunidades beneficiaries consider that “savings are useful for protecting themselves against unforeseen events.”
- 57.2% of agree that “they prefer not to save within their homes”, although many still fear losing the benefits of institutional saving to high commissions.\(^\text{13}\)
- One of the main reasons to save for 44.3% of Bansefi’s Oportunidades beneficiaries is “(...) for frequent and regular expenses as food, and house expenses as water, light, gas, etc.” whereas 36.5% of the same group consider saving a good idea “(...) for unforeseen events / emergencies.”
- As for the means for saving between them, it depends clearly on their affiliation or not to another formal institution (as an MFI or Cooperative) even if they are receiving the transfer through Bansefi, so about half of the people without affiliation to a formal institution state that they “... keeps cash at home/in “guardadito” as they called it, whereas 47% of these Oportunidades recipients with an MFIs or Cooperative account prefer to use them for their savings instead of using Bansefi’s products. In part, this last result can be explained due to “Oportunidades program conditionality that forces them to withdraw all the cash from their transfers from a specified date if they don’t want to lose it”\(^\text{14}\). Nevertheless, in certain pilots where they were allowed to keep part of the money in their accounts, many people opted to keep some balances there.

Current Bansefi savings products can help satisfy some of the Oportunidades recipients’ savings needs:

- CUENTAHORRO, a commission-free product targeted to Oportunidades beneficiaries, is the main savings account product with about 1.5 million accounts.
- PREMIAHORRO is a matched savings scheme to incentivize savings with over 200,000 clients;
- TANDAHORRO, an inflation-indexed saving product with 70,000+ new accounts each year;
- DEBICUENTA is present mainly in urban and semi-urban areas with more than 820,000 clients (Oportunidades and non-Oportunidades clients);

\(^{12}\) SEDESOL – Oportunidades (2009) et al.
\(^{13}\) Ibid Bansefi 2010, p.18 & p.21.
\(^{14}\) Ibid, p. 26 & 27.
Given this information, there is still a potential to bring to more than 5 million families from the Oportunidades CCTs Program, well tailored saving products linked to financial literacy policies and programs. These savings products could be delivered both through Bansefi and through well-regulated MFIs and cooperative institutions through products specially tailored for them.

**Analysis**

**Challenges**

Despite potential gains to be made by linking CCTs with savings products, the concept has its share of detractors. The main arguments against linking CCTs to savings products include:

I. **Pairing savings schemes with CCT programs could undermine the strengths of CCTs.**
   1. Resources originally intended to be used completely for investment in human capital would be diverted to savings, and thus erode family spending on health and education.
   2. Electronic dispersion of conditional transfers might negatively affect the direct contact Oportunidades dispersion staff has with the beneficiaries.

II. **The sustainability of savings mechanisms remains suspect.**
   1. The intermediation of geographically disperse, small, and irregular amounts of savings targeted for lower income persons may not be commercially profitable.
   2. The financial soundness and prudential supervision of savings products offered by different financial intermediaries may come into question, since beneficiaries of CCTs are particularly vulnerable to unethical practices due to financial illiteracy.

**Opportunities**

Yet, there are compelling reasons to question these criticisms of the joint delivery of CCTs, financial literacy programs, and savings schemes.

*1.1 Savings linked to CCTs might divert the original purpose of investing total resources in human capital*

Although CCTs are 100% directed into spending on human capital, the families benefiting from these programs must have additional sources of income, part of which could be directed into some small short-term savings that could actually let them build some assets in the medium term.
I.2 Electronic dispersion of conditional transfers might erode the direct contact Oportunidades staff has with the beneficiaries at delivery of cash dispersion.

There are other mechanisms to ensure the soundness of contact between beneficiaries and the supervision of Oportunidades staff: through school committees, at health clinics, etc. Meanwhile, there are actual gains for a more transparent and clear management of the economic resources, whereas it diminishes any political influence on delivering the direct transfers to the beneficiaries.

II.1 The intermediation of geographically disperse, small, and irregular amounts of savings aimed for lower income clients may not be commercially profitable.

On one hand, CCT programs are in fact reducing transaction costs for both beneficiary families and financial intermediaries, in the sense that the program has already made a considerable investment in selecting people from the lowest income-end of population that have the potential to grow economically and be a good financial client in the longer run.

On the other hand, both technological improvements and recent new financial inclusion regulatory policies offer the opportunity to reduce intermediation costs through electronic financial products and services (debit or prepaid cards and mobile payments schemes) and through more convenient financial business models such as banking agents, mobile banking, and simplified accounts. These two issues might influence positively and directly in the reduction of costs and the profitability of business models that could enable the offering of savings products.

II.2 The financial soundness and prudential supervision of savings products offered by multiple providers may come into question.

Since these new and adequately tailored saving products would be a part of the public policy, side by side with the CCTs other policies, and since there will be only sound regulated financial institutions from different sectors including development banks and popular savings and loans entities, as cooperatives, there should be no more risk than people already take by using any other formal, regulated financial institution.

Additionally, this is precisely why part of the proposed policy includes financial literacy and financial capabilities programs that could strengthen and empower these people in using this and other financial services by providing information about keeping track of their different incomes and expenditures; on the different mechanisms available to face financially expected and unexpected events; on the different ways to increase step by step savings for improving income, and; on the purposes and uses of different financial services and how to select the best of them taking into account their income condition and the key features that can help them smooth income and risk effectively. Finally, these types of instructions should help them be aware of their rights as customers of a
financial institution when using a service that can help them prevent and solve any abuse or conflict that could occur with a financial institution.

The Role of Technology in savings linked to CCTs.

Technological innovation through electronic payments infrastructure must be used to reduce transaction costs for delivering financial products, both for financial providers and for customers:

a) For banks, using technological innovation has the potential to reduce transaction costs by delivering and managing financial products such as savings and insurance remotely, avoiding the cash management costs.

b) For customers, the availability of these services near the place they usually live may reduce the transaction costs of time and money for commuting to other places and may provide them with a closer approach to new financial services.

c) Technological innovation gives financial intermediaries the opportunity to take advantage of cross-subsidies, enabling them to offer additional services for beneficiaries such as micro savings, micro insurance, POS online payments for services, etc.

The Role of Regulation

Regulatory improvements also have the potential to promote products through low regulatory requisites and sound prudential supervision, (i.e., through a simplified accounts regime), and through low transaction costs, (i.e., through banking agents and mobile payments schemes) both targeted to the circumstances of low-income people.

These would both enable at the same time the design of more appealing and suited intuitive products for low income people and would help reduce costs for financial institutions, contributing to financial soundness and prudential compliance through bank supervision.

The connection between low cost channels for financial access with Oportunidades CCTs Programs have also the potential, given the investment already made by Oportunidades for identifying the beneficiaries, to attract the most suitable financial intermediaries for this market niche, such as state-owned savings banks and popular financial regulated companies (well-regulated IMFs and Cooperatives), allowing these intermediaries to have access to these potential markets to offer well-suited financial products and services.

These also could help provide cross subsidies among different financial providers and more financial services. For example, if a DICONSA store has POS devices and an on-line connection this could enable them not only to deliver Oportunidades transfers, but to
offer additional products at relatively low costs, like micro-insurance or service payments.

**The Role of Policy**

a) **Innovative savings product design policies**

The main characteristics and features of an appealing micro-savings product for low-income families must include a deal of research bringing trustfulness, convenience, and attractiveness to the product, as well as sustainability. In many countries, including Mexico recently, there are relatively new studies such as the *Portfolios for the Poor* that are doing formal research to develop suitable financial products for low-income people.15

Another challenge here is to build a business case for a micro-saving product that could prove sustainable, reliable, and profitable. In Annex B there are some initial suggestions of the features that such a product could have in order to be sustainable, attractive, and practical.

b) **Financial literacy programs and financial consumer protection schemes**

A crucial policy component that must be included in linking savings to CCTs are both the financial literacy and consumer empowerment components, such as financial consumer protection and recourse mechanisms being **SINE QUA NON** for the longer term sustainability of these savings incentive policies and asset building schemes.

In recent years, the Federal Government, through different public institutions, including Bansefi, as well as private institutions, such as commercial banks and microfinance institutions, has been developing different financial education programs. In recent months, there has been an effort from the Federal Government to build a national strategy of financial education among both public and private sector stakeholders, so it would be a fundamental policy to include as part of this national strategy a component of financial literacy and financial capabilities aimed for these savings linked to CCT programs. The design of these programs should be carefully developed and must include an impact measurement component, as every policy held at Oportunidades does.

In particular, the importance of this type of policy is that it could have a direct impact on the demand-side of the policy, helping not only bring financial inclusion but social inclusion to an important segment of the population.

---

Recommendations

The goal of this set of proposed policies (promoting savings products and financial literacy) linked to a previous successful CCT social program is to enable, in a relatively short period of time, a large group of families among the lowest-end of the income distribution in Mexico to have access to both financial empowerment and awareness, and convenient financial savings mechanisms at relatively low costs, given the previous efforts and policies developed for providing CCT through electronic technologies.

On one hand, there is always the option to keep things as they have been done in the past, without changing anything. In this scenario, the public policy for promoting financial inclusion will continue at its own pace, promoting more financial access through banking agents and new technology devices for transferring funds and deposit schemes electronically, as the mobile-payments model, even continue with the national financial literacy strategy.

The above mentioned financial inclusion policies are now set both from a regulatory and from a business model perspective, but the chances that they will be available for the poorest of the poor, in a short period of time, are rather low given the lack of financial literacy among this segment of the population.

On the other hand, establishing a coordinated approach on both policy, regulation, and business research between the different stakeholders, (mainly from the Federal Government) and given the relatively good outcomes some related policies have demonstrated in the recent past (i.e. e-transfers), this could advance the financial inclusion agenda by delivering financial literacy awareness and empowerment, as well as quality financial services to a significant group of people.

Given this analysis of the risks and opportunities inherent in these policies, it is clear that the benefits outweigh the costs, provided that some key principles are adhered to:

1) New policies must guarantee the original objectives of CCT programs in building human capital and helping people find their way out of poverty, and at the same time must allow for the introduction of financial capabilities and awareness of the advantages of using savings and other financial services for their own benefit.

2) In order to lower costs and make feasible the link with other policies, policymakers must use the technological and regulatory innovations as electronic dispersion and POS technology as well as banking agents and mobile payments schemes to effectively reduce transaction costs for the beneficiaries of CCTs, for the financial service providers, and for the social programs themselves to allow for expansion and encourage these innovations.
3) Finally, there must be careful research to offer through proper financial intermediaries financial services and products suited to the requirements, aspirations, and circumstances of the people for which it is intended.
ANNEX A

International Experience in Linking Savings to Conditional Cash Transfer Programs

The policy of promoting savings by linking them to CCT programs is the subject of intense interest among different multilateral institutions, ONG’s, governments, and private institutions due to the success of the CCT programs in alleviating poverty levels in many countries. CCT programs are particularly respected for developing over the years a sound and clear capacity to measure results.

The Ford Foundation recently developed with other organizations and federal governments in Latin America the “Project Capital” to deliver pilot projects for evaluating the prospective results of linking savings to CCT programs in six countries: Bolivia, Colombia, Chile, Dominican Republic, Ecuador, and Peru.

The results of this pilot project have been positive in many countries such as Colombia and Peru:

By 2007, Colombia’s expansive nationwide CCT Program, Familias en Acción, had reached more than 1.5 million households. Beginning in March 2009, payments were distributed through affiliated banks (Bancafé, Banco Popular, and Banagrario) in 700 municipalities. Although nearly 350 other municipalities have no formal banking presence, this new linkage between Familias payments and the formal banking system was a first step toward broader financial inclusion of the poor in Colombia. Program administrators could formally link debit cards to bank accounts, as well as incorporate a savings option into their new CCT distribution model.

Similarly, in 2003, Peru developed the Personal Capitalization Account (PCA) pilot to improve individual access of poor people, especially women, to deposit services in formal institutions and was promoted in small, financial education workshops in which participating women received intensive training in the management of their personal financial resources and money management in general. Results in PCA pilot projects in Peru are encouraging. One pilot revealed that 10,000 very poor rural women have accumulated more than $2 million in just 2 to 3 years of savings.
ANNEX B

Proposed Characteristics for a Micro Savings Product linked to CCTs for the Poor

Here we propose some characteristics that might be suitable for such micro-savings products:

1. Safe. It must be guaranteed by the Federal Government and driven to the beneficiary.
2. Formal financial product. It must be issued through a formal financial service (regardless if it is a financial state-owned or financial private institution).
3. Trust. It must give people confidence and trust in the savings product.
4. Profitable. It must give recipients a certain guaranteed return (as a Treasury Bond)
5. Optional. People must have the option to save through this mechanism in a relatively easy way so as to deposit it at a fixed time and in relatively easy amounts.
6. Flexible. It must let them save in small increments. CETESDIRECTO can be held from $100 pesos, (less than $9 usd)
7. Convenient. There must be access to purchase it and cash it back (until its redemption) from the location where people receive their payment electronically.
8. Lasting. People should have the option to save on a longer run basis if they wish so: 1 month, 3 months, 6 months or longer.
9. Purpose. It should be tagged by people to strengthen them to continue to be safe.
10. Cumulative. Micro-savings must let people add into their previous savings in a transparent way.
11. Intuitive. The procedures for managing savings must be very intuitive and as flexible as possible for users, just as depositing money from one account into another.
12. Education. It must be introduced through an educational campaign, which describes how to operate it and the underlying advantages that can be achieved.
13. Empowerment. The product must be introduced in such a way that provides them pride of saving for some purpose.
14. Demonstrative effect. It must provide a kind of model for other potential savers.
ANNEX C

Financial Literacy and Financial Capabilities recent initiatives

- In recent years there has been an increasing interest in promoting financial education, financial literacy, and financial capabilities programs to improve from a demand side perspective the comprehension, attitudes and behavior of people towards financial products, services and institutions.
- Given the rapid technological pace at which communications and financial transactions take place now a days, and the increasing change in the conditions of financial markets, there is an increasing interest from a public policy perspective to have more informed, capable and empowered citizens in financial products and services usage.
- There have been several international efforts to bring this topic for discussions and measurement from multilateral organizations such as OECD and the World Bank.
- Recently in Mexico, from the mid – 2000s on, there have been increasing efforts to develop financial education programs from both public and private institutions, with different aims, different audiences, and different outcomes.
- Recently, the Federal Government decided to start a National Financial Education Strategy, building a National Education Committee composed of the main financial regulatory government organizations such as the Ministry of Finance, the Central Bank, the different National Financial Commissions (Banking & Securities, Insurance, Financial Consumer Defense, Pension funds) and the Banking Savings Fund Institute.
- Mexico is starting to set different national measurement indicators of financial capabilities and financial literacy.
- Financial capabilities is a rather new concept in the developing economies, that started at the UK in the beginning of the 2000s for measuring and improving public policies on the comprehension, attitudes, and behaviors towards personal finance from the individuals and families. This approach has demonstrated improvements in financial education programs and policies in countries such as UK, Australia, New Zealand, and the USA.
- Mexico is developing a first national measurement baseline for financial capabilities.
Bibliography & References


