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Increasing Impact with Savings-linked Conditional Cash Transfers (CCTs)

An Array of Experiences from Latin America

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Introduction

Government social protection programs in 30 countries provide conditional cash transfers (CCTs) to economically disadvantaged families who meet certain requirements (conditions), such as sending their children to school regularly, participating in nutrition programs, and visiting health clinics. Evaluations of CCT programs have been positive, revealing improvements in economic and social outcomes as a result of increased investments in health and education.[1]

Now, policymakers, donors and practitioners in the social protection and financial services fields are collaborating to increase the impact of CCTs by linking them to savings services as an avenue to expand financial inclusion. Currently, nearly 75% of programs distribute CCT payments in cash through delivery mechanisms that do not link the payments to accounts. Of those that do use financial accounts, few encourage recipients to retain a portion of the CCT proceeds in the account as savings.[2]

In Latin America alone, an estimated 24 million people—primarily women—receive CCTs through 17 government programs, which are often administered by ministries of social development or through independent agencies within the presidency, and banks are often responsible for distributing the payments. However, in most cases, banks act merely as payment agents on behalf of the government and do not offer financial services, particularly savings accounts, to the largely unbanked CCT recipients.

FIELD-Support partner, World Council of Credit Unions, joined Fundación Capital, the Inter-American Development Bank's Multilateral Investment Fund (MIF) and CitiFoundation at the 2011 SEEP Annual Conference to explore work being done around savings-linked CCTs in Latin America. The panel's discussion highlighted initiatives focused on both increasing the number of CCTs linked to savings accounts and encouraging recipients to build savings and financial assets through the accounts. Presenters discussed savings-linked CCT programs from three distinct perspectives: through government alliances; through market-based solutions; and from the financial institution practitioner's perspective. Each is discussed further below.

[1] *Savings-Linked Conditional Cash Transfers. Lessons, Challenges & Directions.* New America Foundation, 2011.

[2] *Ibid*

Government Alliances

Presentation by Yves Moury from Fundación Capital

The continuing rise of poverty in Latin America is startling: in 1980, 99 million people lived on less than $2 a day. Today, this number has grown to 125 million, and 250 million people in the region still lack access to quality and diverse financial services. This stark reality has driven the work of Fundación Capital in the region. Through the ***Proyecto Capital*** initiative, Fundación Capital works with national governments to incorporate asset building into poverty reduction policies that have traditionally focused on income-generating policies. Expanding access to financial services, starting with savings, is a critical step in giving the poor the tools for managing financial resources to accumulate assets, protect themselves from shocks and invest in the future.

Through the ***Proyecto Capital*** initiative, Fundación Capital works with national governments to incorporate asset building into poverty reduction policies that have traditionally focused on income-generating policies.

In partnership with the governments of Bolivia, Chile, Colombia, Dominican Republic, Ecuador, Paraguay and Peru, *Proyecto Capital* is implementing programs that promote financial inclusion by linking CCTs and their recipients to savings accounts in financial institutions, and are estimated to have impacted more than 70,000 families as of 2011. Moury describes the initiatives as a "WIN–WIN-WIN" proposal for all parties involved: channeling CCTs through financial institution accounts—rather than cash-based delivery mechanisms—increases efficiency and lowers the **government's** administrative costs of managing the program. At the same time, for **recipients**—especially women—access to savings accounts enables them to manage scarce resources, smooth consumption, plan and allocate resources for future needs, and increases the negotiating power of women within the family and the community. Finally, **financial institutions** have an opportunity to expand their outreach, increase membership and mobilize new savings, particularly if they can convince CCT recipients to retain a portion of their transfers in their savings account.

Beyond linking CCTs to savings accounts, *Proyecto Capital* is using technology and community networks to expand financial education among CCT recipients. "Achieving Financial Inclusion through Technology" or the *LIFT Initiative* as it is known in Colombia, supported by Citi-Foundation, uses mobile phones to send CCT recipients "nudge" messages that encourage them to save. In addition, tablet devices are embedded in public places for self-training on financial education using short interactive multimedia modules. The tablets are also given to community leaders to facilitate peer training in villages.

Presenter Yves Moury emphasized that while savings-linked CCTs coupled with financial education is a good first step in graduating recipients from CCTs, there needs to be more discussion on a complete graduation process. In addition, more work needs to be done to prove to financial institutions that savings-linked CCTs can be a good business model.

Market-based Approach

Presentation by Fermin Vivanco of Inter-American Development Bank's Multilateral Investment Fund (MIF)

Fermin Vivanco of Inter-American Development Bank's Multilateral Investment Fund (MIF)presented an in-depth look at the types of savings products that can be linked to CCTs. Unfortunately, there are few savings products in the market that address the needs of low-income people, and a majority of financial institutions do not have sufficient experience working with this demographic. Those that do, primarily have experience on the credit side or with higher-income savings clients—the exception being credit unions that have a long history of mobilizing savings among low income people.

Currently, CCT payments are primarily made in cash and prepaid cards, sometimes with the option of opening a savings account linked to the card. However, the use of savings accounts is typically low. In Brazil, MIF found that some people thought that if they did not withdraw the money, it would indicate that they did not need it. In other cases, recipients were not familiar with the financial institution and as a result were uncertain of the fees associated with the account transactions. In addition, Vivanco highlighted a study from the *Corporación Andina de Fomento (CAF)*, which found that while 50% of people had savings accounts, only 20% used them to save; among the low income population, the percentage was even lower. People may have opened accounts when they were children, had a job or received a government payment, but the majority did not continue to use them as a vehicle for savings.

That said, MIF sees a significant opportunity for scaling up savings services. Through the *ProSavings* program, MIF is working with financial intermediaries that serve the low-income population to test new savings business models or build on existing ones to not only link CCTs to savings, but to "bank" the recipients and encourage ongoing use of savings and other financial services. The approach, referred to as the "last mile approach," focuses on linking recipients to financial institutions by addressing the challenges and opportunities related to both parties, presented below in Table 1.

Table 1 Challenges and Opportunities for Linking CCTs to Savings Accounts

Linking CCTs to Savings Accounts		
	Challenges	**Opportunities**
Financial Intermediaries	• Inadequate infrastructure to attend a high volume of clients • Limited knowledge of the target population • Lack of proper methodologies and strategies to serve the target population	• Enlargement of the client base • New business activities and cross selling • Implement technologies to reduce operational costs and reach the target population
CCT Recipient Households	• High costs to access payments • Few formal savings options • Limited savings capacity: lack of confidence in ability to save, weak savings habits, lack of understanding of the benefits of savings	• Savings in a secure instrument • Ability to receive government payment without traveling long distances • Learn about the benefits of savings

The *ProSavings* program is expected to benefit at least 200,000 government payment recipients through 10 to 14 projects. Going beyond simply linking savings to CCTs, projects are expected to include the development of liquid savings products—designed to provide short-term liquidity management for security and convenience—and contractual savings products—designed to help savers accumulate capital for future needs, such as for health, education, housing, emergency, and recreation. For these contractual products, the importance of having a clearly defined purpose either in terms of amount, timeframe or objective; providing mechanisms to both ensure frequent and regular deposits to build capital and discourage withdrawals; and incorporating financial education is emphasized. Other elements include ways savings can be used as an entry point to other financial services. In addition, distribution of savings-linked

CCTs through the *ProSavings program* are expected to go through a variety of distribution channels, including mobile technology, correspondent banking, point-of-sale (POS) devices and small agencies with satellite technology.

MIF is taking a multi-donor approach to implementation, working in partnership with Citi, Citi Foundation, CAF, New America Foundation and International Development Research Centre (IDRC). There is a heavy emphasis on information sharing and, at the end of the program, rigorous evaluations on the impact of savings will be carried out. The program website, www.pro-savings.org, will serve as a platform for knowledge sharing.

Practitioner Perspective

Presentation by Chris McHugh of World Council

Building on the MIF presentation, Chris McHugh of World Council of Credit Unions presented from the perspective of a financial institution practitioner and provided an overview of World Council's upcoming work with the *ProSavings* program in Peru and Colombia. World Council has found that a natural fit exists between the market and mission of credit unions and the needs of CCT beneficiaries as credit unions already have experience working in underserved areas with the poor and low-income people—many of whom receive CCTs. However, as these credit unions do not necessarily have experience working with the poorest of the poor, they see CCT distribution as a way to increase depth of outreach and further expand access to finance.

Currently in the pre-implementation stage, Colombian and Peruvian credit unions and their national business networks and federations are working with the *ProSavings program* to build a business model for linking CCTs to savings in a manner that will establish a meaningful relationship between the credit unions and the recipient. This business model is based primarily on lessons from the credit union experience in expanding financial inclusion to the unbanked and underserved.

McHugh highlighted four key elements for sustained success that have been incorporated into the model: an enabling regulatory environment; appropriate financial education; demand-driven savings products; and efficient delivery mechanisms/adequate infrastructure to take financial services to people in their communities. (See Figure 1.) Each is discussed in further detail below.

Figure 1 Key Elements for Sustained Success

Enabling Environment
Pre-requisite: favorable regulations for providing banking services and Know Your Customer (KYC)
Financial Education
Appropriate financial education training programs and methodologies
Demand-Driven Savings Products
Appropriate savings products and marketing
Efficient Delivery Mechanism
Adequate infrastructure to take financial services to people in their communities

Enabling Regulatory Environment

Before embarking on CCT distribution, credit unions must ensure that from a regulatory perspective they will be able to handle the influx of new members. This includes, for example, ensuring that they have the systems in place to comply with Know Your Customer (KYC) regulations, due diligence measures to protect against anti-money laundering and combating the financing of terrorism regimes. These regulations can be tedious and can present a practical constraint if not addressed. Furthermore, credit unions must perform due diligence to ensure that local regulations allow utilizing mobile payment systems, such as smartphones, POS devices, and cell phones for such transactions. Onerous regulations governing mobile operations can derail efforts to scale up financial access through CCTs using alternative distribution channels. A financial institution interested in entering this space will want to have a thorough understanding of the enabling environment and the potential constraints and incentives that may exist.

Appropriate Financial Education

McHugh noted that when talking about financial education, it is important to understand all of the benefits. On the one hand, the clients benefit from learning basic savings and financial planning skills. On the other hand, if done correctly and tailored to the needs of the target group, financial education can serve as a mechanism for the financial institution to get to know the needs of clients.

World Council has found that financial education programs are often donor driven and are not seen as important at the financial institutional level. If financial education is designed just to address CCTs, it may be hard to convince financial institutions to incur the additional costs of administering these programs. Ideally, financial education programs need to be integrated into the overall product offering and link directly to a variety of products. Training should be designed to help members understand that by managing their credit and savings, they can be economically empowered to build their own capital and eventually depend less on borrowing. The more practical and applicable the training, the increased likelihood for sustainability as an ongoing service of the financial institution.

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Demand-Driven Savings Products

In designing the savings-linked CCT products, credit unions found that they do not necessarily need to design new products, but rather revisit how existing products are delivered. Contractual accounts, or programmed savings, are the primary focus of the *ProSavings program.* Credit unions have offered these accounts for years; however, the specific characteristics for contractual accounts linked to CCTs need to be further developed. As credit unions are looking for ways to make these more attractive and appealing to recipients, one important ingredient is to have accounts linked to the tangible goals of the CCT program and provide other benefits. Some credit unions are exploring incentives, such as pharmacy or education discounts, that tie to the CCT goals.

While not the focus of the *ProSavings program,* credit unions also offer transaction or passbook savings accounts that are liquid. To increase the appeal of these accounts and provide incentives for saving, credit unions plan to lower barriers to these accounts, including removing restrictions on the number of withdrawals, minimum balance requirements and lowering or removing commissions and penalties associated with account management.

Efficient Delivery Mechanisms and Adequate Infrastructure

Sustainably banking the underserved with CCTs depends heavily on credit union operating efficiency, legal compliance, and productivity in mass distribution. Achieving efficiency and massive outreach requires investment in technology and infrastructure to create a network (i.e., a switch, the software and hardware), as well as the employment of experienced technical staff to manage operations.

Individually, credit unions generally do not have the capital to cover the required infrastructure costs or the national coverage for mass distribution. However, by pooling resources, credit unions have been able to form business networks through which they can access the technology and reach CCT recipients nationwide. Through these networks, credit unions can use mobile technology, including smartphones, POS devices and cell phones, to give people access to CCT payments and financial services in the communities where they live and work. The underlying assumption behind these investments is that with more convenient access, recipients will be more willing to be a part of the financial sector and begin to see how it can fit into their daily lives to meet their financial needs.

However, additional questions still need to be considered for financial institutions exploring ways to get engaged:

- Are the transaction costs associated with small value savings accounts prohibitive?
- What are the most attractive savings products?
- What other financial products can be offered to CCT recipients?
- Can critical mass be achieved to cover costs?
- How can financial education training costs be financed?
- How can information technology infrastructure investments be financed?

McHugh noted that these questions are no different from the ones practitioners have been asking about financial inclusion. However, taking a closer look at CCTs allows us to focus on a single market segment that can be transformed into a market-oriented approach.

Moving Forward with a New Model

Closing by Carlos Manuel Parra of CitiFoundation

It is important to remember that we are talking about a new way of looking at CCTs, as not just a type of welfare payment but as a methodology for financial inclusion. People need more than just payments; they need to build assets, which will be what ultimately leads to graduation from CCTs and poverty reduction. Linking CCTs to savings accounts and including financial education is a good first step in this direction as it provides recipients with a means to enter the formal financial system, gain access to a variety financial products and begin to grow their assets.

Additional Resources

- Fundación Capital website, www.fundacioncapital.org
- Multilateral Investment Fund ProSavings program website, www.pro-savings.org/en
- *Savings-Linked Conditional Cash Transfers in Latin America*. SEEP Conference, November 2011. Available at www.seepnetwork.org/filebin/pdf/Wednesday_Workshop_VP_SavingsLinkedConditionalCashTransfers.pdf
- New America Foundation. *Savings-Linked Conditional Cash Transfers. Lessons, Challenges & Directions. Report from a Global Colloquium, November 2010, New York*. Washington DC: New America Foundation, 2011. Available from http://gap.newamerica.net/slcct
- New America Foundation. Webinar, *Savings & CCTs: The Next Generation of Anti-Poverty Programs?* May 3, 2011, Washington DC. Available from http://newamerica.net/events/2011/next_generation_antipoverty
- World Council of Credit Unions website, www.woccu.org/financialinclusion