Working Paper

Enhancing the Impact of Cash Transfers

The Latest Trends toward Savings-Linked Social Protection

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July 2012

On February 29, the World Bank announced that the developing world as a whole had attained the first Millennium Development Goal of halving the incidence of extreme poverty. While this was a monumental achievement, progress in developmental outcomes was uneven across regions: in South Asia, the poverty rate fell from 61 to 36 percent between 1981 and 2008, while in Sub-Saharan Africa that same rate dropped from 51 to 47 percent.[1] In addition, the World Bank acknowledged that at the current rate of progress, one billion people would still live below the poverty line by 2015.

One of the most successful tools in the fight against poverty, one that has attracted increasing attention over the past decade, is social protection via cash transfers. In fact, the New America Foundation's Global Savings and Social Protection Database – which focuses on Latin America, Africa, East and Asia – has identified over 90 cash-transfer programs in 45 countries, with over a half billion beneficiaries. As the Chronic Poverty Research Centre puts it, "social protection is critical in preventing descent into chronic poverty and reducing the depth of poverty… [and the cash transfers] protect household consumption and human capital investment and [facilitate] the inclusion of poorest households in economic activity."

Over the years, we have seen clear and convincing evidence that cash transfers can reduce inequality and the severity of poverty, in addition to improving health and educational outcomes as measured by school enrolment and utilization of health services.[2] To take the example of one of the oldest and most rigorously evaluated conditional cash transfer (CCT) programs,[3] *Oportunidades* (formerly known as PROGRESA) in Mexico has been associated with a 30 percent reduction in the poverty gap and has raised the height-for-age of beneficiary children by 1cm, leading the World Bank president Robert Zoellick to say that the program "had done more for women's health than anything in Mexico's history."[4]

[1] Chen, S., & Ravallion, M. An update to the World Bank's estimates of consumption poverty in the developing world. *Briefing note*. (Development Research Group, World Bank. 2012).

[2] UK Department for International Development. *Cash Transfers: Literature Review*. (London: DFID. 2011).

[3] Conditional cash transfer programs direct funds toward qualified households or individuals if they fulfill certain requirements like visiting health clinics or making sure their children attend school regularly.

[4] Barrientos, A., & Zarazua, M. N. *Do social transfer programmes have long-term effects on poverty reduction.* (Manchester: Chronic Poverty Research Centre. 2010).

Cash-transfer programs have evolved over time in an effort to address their shortcomings and maximize their impact on poor households. One such movement within programs is linking them with bank accounts and other formal financial services. The Global Savings and Social Protection Database has found that almost 70 percent cash-transfer recipients are now able to store their payments for future use, though they often are unable to access other services such as the ability to make deposits. While the field of work and study on the topic is only emerging, recent experience suggests that there exists untapped potential to further leverage developing opportunities for both financial inclusion and social protection. Such strategies can help to more quickly and effectively provide financial and human capital asset-building opportunities for millions of the world's poorest.

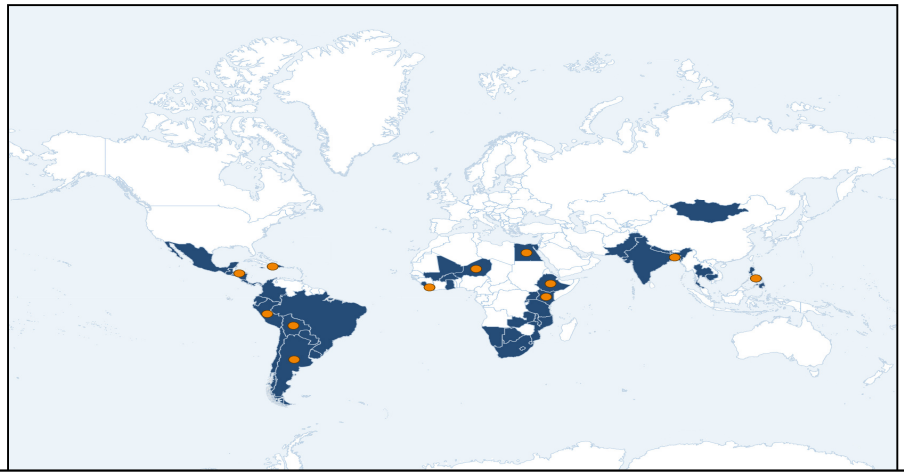
In 2010, the Global Assets Project at the New America Foundation, the Ford Foundation, the United Nations Development Program, the Citi Foundation and *Proyecto Capital* convened an Expert Global Colloquium to explore the emerging linkages between the development of cash transfers and financial inclusion. At the time, the Colloquium identified trends toward electronic payments and savings-linked social protection. In addition, the Colloquium identified the primary opportunities and challenges that this movement faced, including those in technology and infrastructure, financial intermediaries, regulatory issues, and financial capability, as well as a learning agenda moving forward.

The Global Assets Project has since taken this work forward by mapping the global landscape of savings-linked social protection policies and programs, in addition to analyzing where the infrastructure and policies are in place to enable savings-linkages. Based on this analysis, in addition to a variety of in-depth interviews with stakeholders including academics, government officials, NGO representatives, multi-lateral donors and financial sector consultants, we have identified the trends in cash-transfer programs and payment infrastructure that are catalyzing this movement, as well as the strengths and weaknesses of current efforts to promote financial inclusion within social protection programs.

This in-depth examination of these trends makes one thing clear: a new era of social protection is emerging. Future social protection programs will not look like the ones in place today. Recent advances in our understanding of poverty and the technology at our disposal are opening up exciting new opportunities to "do more with less," which is all the more important as governments around the world struggle to finance a robust social protection floor. With a thorough understanding of the opportunities and challenges to advancing innovative, cost-effective and high-impact policies, this paper aims to support the advancement of sound, effective and efficient savings-linked social protection models.

In Part I, the paper will examine the increasing emphasis on long-term, integrated interventions to build both the physical and financial assets necessary to increase resilience and graduate from poverty. Part II analyzes the shift toward electronic payments and developments in payment infrastructure (especially mobile banking) that are accelerating the development of financial asset building. Part III will look at current efforts to promote financial inclusion and savings to enable asset building and the graduation from poverty. The paper will conclude with a synthesis of how the trends in program structure and payment infrastructure can best inform ongoing work to promote financial inclusion through social protection payments.

Map 1. Cash Transfer Programs in Latin America, Africa and Asia



The countries shaded in blue are implementing social protection programs that include cash transfers; countries with an orange circle have started or expanded their programs in the past three years. All active anti-poverty social protection programs reaching more than 5000 individuals were included in the mapping. Pension programs, pilots, closed programs, or universal programs were generally excluded—the exceptions being if a program held valuable lessons in understanding the transition to electronic payments and/or savings, and the relevant challenges and opportunities therein. Source: New America Foundation. *Global Savings and Social Protection Database.* July 2012.

Part I. Trends in Cash-Transfer Program Structure: Long-term, Graduated Interventions

Since the advent of Mexico's conditional cash-transfer program PROGRESA (now known as *Oportunidades*) in 1997, social policymakers from Nicaragua to Nigeria have adopted similar models for alleviating poverty. In Latin America, Africa, and Asia alone, there are over 90 cash-transfer programs in 45 countries, with over a half a billion beneficiaries. [5] Of these programs, 15 have been started, expanded or redefined in the past 3 years alone, which shows how rapidly the landscape of cash-transfer social protection is evolving.[6] In addition, the reach of cash-transfer programs has dramatically expanded within countries. *Oportunidades*, which covered 300,000 households in 1997, now reaches 5 million; Brazil's *Bolsa Família* program, which started as an experiment in two municipalities in the mid-1990s, now has over 8.5 million beneficiaries.[7]

As these programs have spread throughout the world and grown in popularity, they have evolved to maximize their impact on beneficiary households. At the same time, this progression has also led programs toward potential linkages to savings opportunities.

From the perspective of program structure and function, two developments are particularly relevant: 1) the shift from emergency interventions to long-term, permanent programs (most notably in Africa, but also in other countries such as Uruguay) and 2) the emphasis on helping beneficiaries graduate from poverty by helping them to holistically build assets. Long-term programs lead to potential savings linkages as extended time horizons enable both the introduction of beneficiaries into the formal financial system and the accumulation of assets. The emphasis on helping beneficiaries graduate from poverty connects to savings opportunities since, over time, these programs aim to enable households to build and accumulate their own wealth.

A. From Emergency Interventions to Long-Term Investments

In most countries with cash-transfer social protection programs, the interventions are designed to be long-term and permanent. However, in emergency contexts and with populations in extreme poverty, social protection interventions have often been temporary in nature. In these cases, temporary interventions serve to address the acute,

[5] New America Foundation. *Global Savings and Social Protection Database.* July 2012.
[6] Ibid.
[7] Ibid.

immediate needs felt in the aftermath of natural disasters or simply ameliorate the worst conditions for the ultra-poor.

As cash-transfer programs have gained momentum as tools for social protection, there has been an accompanying realization that longer-term investments are more effective than short. In fact, as the World Bank has recognized, although crisis response is often the instigator of social protection in low-income countries, "programs designed only to respond to temporary shocks...are [often] then expanded to address non-crisis issues."[8] At root, these temporary programs are usually expanded into long-term interventions in light of the belief that long-term asset building is essential in helping to guard against future emergencies and build resiliency. Similarly, interventions targeted at the ultra-poor often expand their time horizons in order to enable beneficiaries to not only maintain a basic livelihood, but also to help them to graduate from poverty altogether.

In addition to the two examples discussed below, similar shifts to long-term interventions have been seen in Haiti, where NGO cash-transfer interventions after the 2010 earthquake are the basis for a national scale-up in the coming year, Uruguay, Pakistan, and Bangladesh.

Ethiopia's Productive Safety Nets Program

Over 80 percent of Ethiopians live in rural areas and are heavily reliant on rain-fed agriculture, which leaves them extremely vulnerable to weather cycles.[9] From the mid-80s until 2005, the core policy response was ad hoc appeals and other forms of emergency assistance.[10] Though many of these measures were successful in averting mass starvation, they did not address the underlying asset losses and chronic insecurity of those affected. Starting in 2005, the Government of Ethiopia and a consortium of donors launched a three-year intervention called the Productive Safety Nets Program (PSNP), whose objective is "to provide transfers to the food insecure populations in chronically food insecure *wordeas* (districts) in a way that prevents asset depletion at the household level and creates assets at the community level."[11] The donor group, which includes the World Bank, USAID, CIDA among others, contribute a total of nearly USD500 million annually, and as of 2008 the program reached more than 7 million Ethiopians.[12]

PSNP is comprised of two components: public works, which provides employment to laborers and is the core component, and direct support to those who cannot participate in public works. Participants in the program, which are expected to remain for 3 years, also participate in the "Other Food Security Program," which involves at least one of the following: access to credit, agricultural extension services, technology transfer, and irrigation/water harvesting schemes.[13] Early evaluations showed that participation in both programs led to greater food security and improved use of agricultural technology, although these participants did not experience faster asset growth than the comparison group.[14] Another study found that there was no trend toward increased livestock holdings because of the program, though long-term income earning potential seemed to have increased.[15] This is the most important effect of the joint intervention, as Ethiopian households could be more resilient to future droughts as a result.

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[8] Andrews, C., & al, et. Social Protection in Low-Income Countries and Fragile Situations. *Social Protection & Labor Discussion Paper*. (Washington, DC: The World Bank, 2012).

[9] Andersson, C., Mekonnen, A., & Stage, J. Impacts of the Productive Safety Nets Program in Ethiopia on Livestock and Tree Holdings of Rural Households. *Discussion Paper*. (Environment for Development. March, 2009).

[10] Gilligan, D., Hoddinott, J., & Taffesse, A. S. The Impact of Ethiopia's Productive Safety Net Programme and its Linkages. *Discussion Paper, 00839*. (IFPRI. 2008, December).

[11] The World Bank. Brazil, World Bank Step Up Fight Against Extreme Poverty. (2011).

[12] Gilligan, D., Hoddinott, J., & Taffesse, A. S. The Impact of Ethiopia's Productive Safety Net Programme and its Linkages. *Discussion Paper, 00839*. (IFPR. 2008, December).

[13] Ibid.

[14] Ibid.

[15] Andersson, C., Mekonnen, A., & Stage, J. Impacts of the Productive Safety Nets Program in Ethiopia on Livestock and Tree Holdings of Rural Households. *Discussion Paper*. (Environment for Development. 2009, March).

Zambia: From Pilots to Sustainable National Programs

In 2005, Zambia had an HIV Prevalence rate of 16 percent and had over 845,546 AIDS orphans,[16] placing it among the six countries worst affected by HIV in sub-Saharan Africa.[17] This epidemic only compounded the existing needs in Zambia, where there was a 51 percent incidence of extreme poverty and multiple droughts in the last two decades.[18] From 2000 to 2005, as many as eighteen social protection schemes had been implemented, with varying objectives, coverage, instruments, and targeting,[19] all meant to help HIV-affected households cope with the additional stress and loss of work, labor, income, and assets.[20] In this context, Social Cash Transfer Schemes, which began with the Kalomo Scheme in 2004, were seen as an attempt to move past erratic interventions toward "an effective intervention mechanism in terms of impact on the beneficiaries and the capacity of existing systems to design and implement them."[21]

Executed in cooperation with the German Technical Cooperation (GTZ, now GIZ), the Kalomo Scheme was established with two primary objectives: first, "to help the most destitute and incapacitated households to meet their basic nutritional, health, housing, and education needs"; and second, "to generate information on the feasibility, costs and benefits, and positive and negative impacts of such a scheme as a component of a social protection strategy in Zambia."[22] The scheme targeted the 10 percent most destitute and incapacitated households in the district, with a particular focus on those headed by elderly and caring for orphans and vulnerable children, and included a monthly cash transfer of ZMK 50,000 (around USD 10.00).[23] Some of the most impressive impacts were seen in the education of children in beneficiary households, where half of all youth aged 7 to 17 who were not enrolled at the beginning of the project were enrolled by the end, and the boys' enrolment rate caught up with that of girls.[24] In addition, debt levels dropped, asset ownership rose and households making small investments quadrupled from 14 to 50 percent and the average amount invested doubled.[25]

Following the trend in sub-Saharan Africa, Zambia recently introduced a social protection strategy as an attempt to "harmonize, prioritize, and improve existing approaches as well as integrate new ones such as the Social Cash Transfer Scheme that form in a particular response to current crises such as the HIV/AIDS pandemic,"[26] and Zambia hopes to roll out a National Social Cash Transfer Scheme to cover the whole country by 2012. This unified scheme is aimed to enable affected households to build their asset base over time in a sustainable and robust manner to deal with all the manifold consequences of the HIV/AIDS pandemic, droughts, and poverty.

B. Integration of Timed Interventions to Build Assets

With groundbreaking work from the Chronic Poverty Research Centre, there has been a growing realization that deep poverty is the result of multiple overlapping "poverty traps," and as such asset-building interventions need to be multi-faceted to be truly effective. For instance, the Chronic Poverty Report describes five 'traps' that keep people poor: insecurity, limited citizenship, spatial disadvantage, social discrimination, and poor-quality work opportunities.[27]

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[16] UNDP. *Enhancing household capacity to respond to HIV and AIDS.* Human Development Report Zambia. (UNDP, Lusaka, 2007).
[17] GIZ. *Cashing in: How Cash Transfers Shore Up Zambian Households Affected by HIV.* (Eschborn: GIZ, 2009).
[18] Chiwele, D. *Assessing Administrative capacity and costs of cash transfer schemes in Zambia.* (Brasilia: International Policy Centre for Inclusive Growth, 2010).
[19] Ibid.
[20] GIZ. *Cashing in: How Cash Transfers Shore Up Zambian Households Affected by HIV.* (Eschborn: GIZ, 2009).
[21] Ibid.
[22] Schubert, B. *The Pilot Social Cash Transfer Scheme Kalomo District Zambia.* (Manchester: The Chronic Poverty Research Centre, 2009).
[23] 2012 Conversion, Jan 1
[24] GIZ. *Cashing in: How Cash Transfers Shore Up Zambian Households Affected by HIV.* (Eschborn: GIZ, 2009).
[25] Ibid.
[26] Ministry of Community Development and Social Services. (s.f.). *MCDSS.* (G. o. Zambia, Productor) Retrieved March 1, 2012, in http://www.mcdss.gov.zm/
[27] The Chronic Poverty Research Centre. *The Chronic Poverty Report 2008-09: Escaping Poverty Traps.* (Manchester: The Chronic Poverty Research Centre, 2009).

To reflect this expansion in thinking about the multiplicity of what keeps people in chronic poverty, more social protection programs are incorporating a variety of interventions in their efforts to build beneficiaries' assets and help them improve their lives. Program administrators are also realizing that the sequencing of their interventions is vitally important to beneficiaries' well-being, for instance in first meeting households' basic consumption needs, then focusing on job training or other micro-enterprise development. In other words, there is a gradual shift in these programs' focus from providing assets to families to enabling them to produce their own.

The classic example of this type of "graduation through asset building," as described by *Fundacion Capital*, is the BRAC/TUP program, which has been in existence now for over a decade. [28] The most relevant aspect of the program, which the CGAP-Ford Graduation Program is piloting in eight different countries, is the transition from regular cash payments to get a household on its feet, to a fixed asset transfer, and then to financial inclusion and savings promotion (See Figure 1).[29] Brazil and Chile, discussed in detail below, are also integrating their asset interventions to enable long-term wealth creation.

Bangladesh - An Integrated Approach to Asset Building

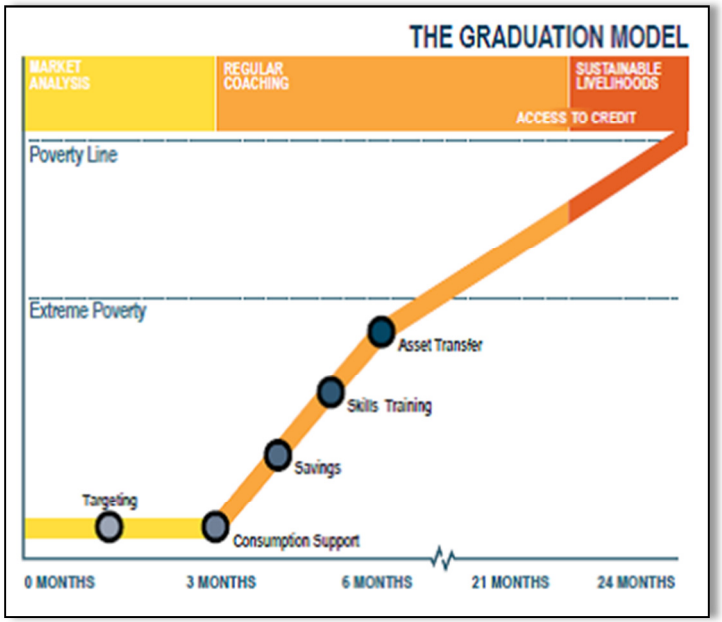
BRAC's Challenging the Frontiers of Poverty Reduction/Targeting the Ultra-Poor (CFPR/TUP) program is the paradigmatic example of the multi-faceted targeting of the ultra-poor to help them graduate from poverty. Launched in 2002, the TUP program incorporates physical, human and social interventions for the poorest 20 percent of Bangladesh's population. In addition to a grant of physical assets, the program helps recipients convert their assets into a microenterprise, particularly livestock and poultry rearing, fruit, vegetable, and herb cultivation, and the operation of tree nurseries. The original proposal for the project did not include a cash transfer, but early experiences showed that many of the participating women continued to work in menial jobs instead of investing the time and energy in their assets that were transferred to them.[30] This regular transfer incentivized greater participation and investment on the part of beneficiaries, in addition to better attendance at group meetings. As women progress through the two years of the program, they are gradually trained in money management, and savings are eventually collected at the weekly meetings.[31] After two years in the TUP program, and after the participants' businesses are launched, microfinance and other services are provided through Village Organizations (with their savings often serving as collateral for their loans).

Early results from the TUP program are quite compelling. Based on surveys from 2002, 2005, and 2008, 95 percent of program beneficiaries "graduated" out of poverty, as measured by meeting 6 of 9 indicators (such as food security, diversity of income sources, and improved housing).[32] Chronic food security among participants fell by 47 percent and caloric intake increased over 22 percent, and this upward trend continued after the program's end, suggesting that the program had resulted in an impact that extended beyond its duration. Spending on medical treatments also increased, as well as improved sanitary practices such as: 1) using latrines and 2) wearing sandals when they use them. Lastly, more boys were enrolled in school after the program ended, though girls saw no similar benefits.

[28] Perez, C. T. *El Proyecto Graduacion: Experiencias Exitosas de Graduacion Sostenible A Partir del Acrecentamiento de Activos de los Probres Extremos.* (Panama: Fundacion Capital, 2012).
[29] Ibid.

[30] Martin, I. *Crafting a Graduation Pathway for the Ultra Poor: Lessons and Evidence from a BRAC programme.* (Brasilia: The Chronic Poverty Research Centre, 2008).
[31] Ibid.
[32] Hashemi, S., & Montesquiou, A. d. *Reaching the Poorest: Lessons from the Graduation Model.* CGAP. (Washington: CGAP, 2011).

Figure 1. The Graduation Model



Source: Montesquiou, A. d. (2011). Graduation Model Graph. CGAP. Washington.

Chile - Gradually Decreasing Government Payments

Poverty in Chile was reduced significantly in the 1990s, but that decline stalled by 2000. That year, 850,000 people (5.7 percent of the population) were living in extreme poverty, and according to the World Bank these people had become more vulnerable and excluded in that decade. [33]

In response, in 2002 the government began a pilot program, *Programa Puente*, in four of 13 regions of the country that targeted the poorest of the poor. This program was an integrated intervention that provided support in seven areas: health, education, home, family, identification, income, and work. Regular visits from social workers helped to ensure that each participating family met at least 70 percent of the program's 53 "social minimums" and thus were eligible for continued participation.

After two years of close supervision and guided development in *Programa Puente*, families transition to *Chile Solidario* for three years, during which they continue to receive cash payments and preferential access to government services. The programs' payment scheme illustrates nicely the graduation of responsibility and independence, as payments decrease over the course of the first two years from USD 28.12 to USD 12.29. During this time, families receive training on recognizing their asset base and "[understanding] how they can be used as a foundation to build concrete solutions to the problems they face." Near the end of the intensive training, families are walked through how to manage their limited incomes, think about how to increase it, and plan a family budget. Thus, similar to BRAC/TUP, as *Chile Solidario* gradually weans beneficiaries off government payments, it aims to help them to build, manage, and grow assets on their own.

Brazil - Savings Promotion When Beneficiaries are Ready

Another telling example of the integration of other social services into asset transfer programs occurred last year in Brazil -- the home of one of the oldest and most widely admired CCT programs *Bolsa Familia* -- with President Dilma Rousseff's launch of *Brazil Sem Miseria*. One major change to *Bolsa Familia* was the introduction of the "active search" philosophy, under which officials aim to find families who qualify for payments but fail to claim them because of isolation or lack of information. Through this process, 800,000 families are expected to be added to the rolls by 2013, with a particular focus on the country's Northeast, where the majority of Brazil's extreme poor reside.[34] At the same time, recent research suggests that Brazil's asset building interventions should not focus on these extremely poor beneficiaries, but instead those with relatively more resources.

With a similar belief to Chile that a wide range of interventions are necessary to address the systematic causes of poverty and enable poor households to improve their lot,

[33] Organization of American States. *Chile Puente Program Review.* (Washington, 2006).

[34] The World Bank. Brazil, World Bank Step Up Fight Against Extreme Poverty. (2011).

Brazil Sem Miseria is expanding the range of public services to the poor, including documentation, electricity, health, education, and sanitation. In addition, there will be an increased emphasis on "productive inclusion," which will aim to increase the productive capacity of farmers through technical assistance and commercial support, as well as job training and the identification of job opportunities for those in rural areas.[35] In this way, the cash transfers of *Bolsa Familia* could help families stand on their own feet, while Rousseff's government provides complementary training to help these families integrate into society and earn a living.

Brazil is one of the leaders in promoting financial inclusion among recipients of *Bolsa Familia*; however, along with the realization that a variety of interventions may be necessary to address beneficiaries' systematic poverty, recent findings suggests that Brazil's asset-building strategies could also benefit from segmentation. As Sarah Rotman of CGAP put it after conducting extensive field research in the country:
"If you look at the *Bolsa Familia* recipients, there's a segment that really need this money for consumption, they depend on this income, it's their main source of income for the family, [and] perhaps it's irresponsible to ask them to save. Another segment of beneficiaries for whom this is additional income, and perhaps they are not managing the money as well as they could as efficiently as they could...For that segment, some types of storage capacity would be useful."[36]

Takeaways

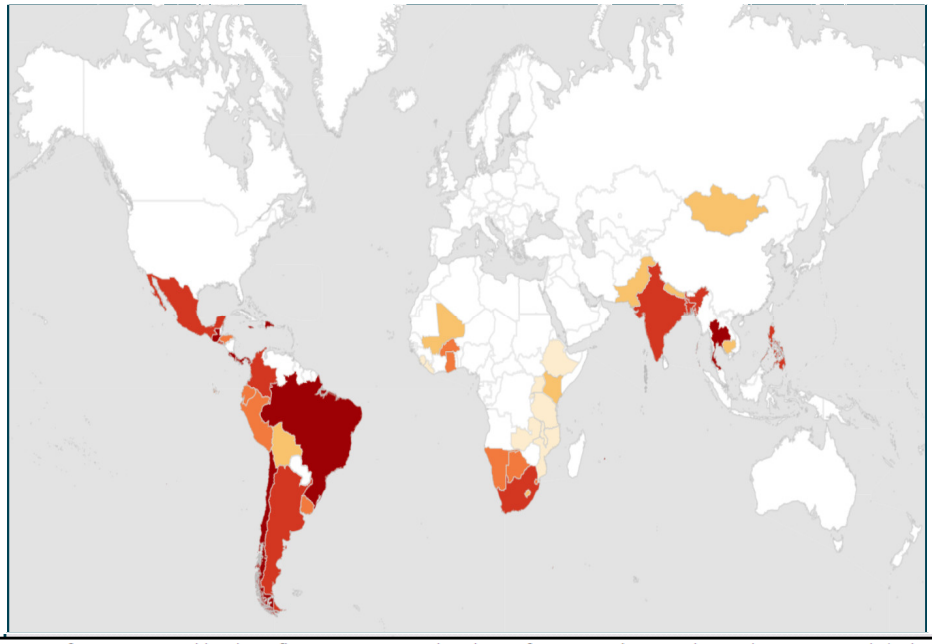
From a broad look at cash-transfer programs, we see not only the rapid proliferation of this unique and high-impact methodology, but also some general movement toward savings-linked social protection programs. First, as more and more programs shift from emergency interventions into long-term investments, there is more space for beneficiaries to build their assets and change their behavior into wealth creating ones. In addition, within long-term projects, investments from the private sector/banks are more profitable, especially when that investment entails building out financial infrastructure and/or financial literacy efforts.

Second, the integration of asset-building interventions in order to help families graduate from poverty entails promoting savings opportunities, as the accrual of assets is essential to escaping from multi-faceted poverty traps. Programs such as those in Bangladesh start with a straight asset transfer to beneficiaries, follow with productive training, and then involve financial management training and savings promotion.

While developments in program structure are facilitating and enabling financial asset building, advancements in the payment infrastructure within countries are redefining how cash transfers are delivered and the possible benefits for recipients. In the next section, we discuss these advances and what they mean for savings-linked social protection.

[35] Embassy of Brazil in London. Brazil Sem Miseria. *Brazil National Poverty Alleviation Plan*. (London: Embassy of Brazil, 2011).
[36] Porteous, D., & Rotman, S. . "*Electronic G2P Payment Systems and Financial Inclusion.*" (CGAP, Washington. 21 March 2012. Lecture).

Map 2. Payment Infrastructure



This is one of the five heat-maps of composite variables that influence countries with cash-transfer programs' potential to implement savings-linked social protection models that are found on New America Foundation's Global Savings and Social Protection website. This map shows 11 different variables relating to a country's payment infrastructure, including number of commercial banks, microfinance institutions, and ATMs, as well as mobile penetration and financial literacy. A country's 11 variable scores were then used to compute a composite Payment Infrastructure score. Source: New America Foundation. *Global Savings and Social Protection Database*. July 2012.

Part II. Social Protection Payment Infrastructure: E-Payments and Mobile Banking

When cash-transfer programs began in the late 90s, few options existed other than delivering payments to beneficiaries in physical cash. Over time, however, advances in branchless banking, ATMs, mobile phones, and identification measures have exponentially increased the range of options open to governments and other administrators of cash-transfer programs. This full gamut of options is important to keep in mind as the most efficient and high-impact delivery method in one country may not function well in another.

To better understand the payment infrastructure in countries with cash-transfer social protection programs, the Global Assets Project analyzed 11 variables, including the presence of commercial banks, microfinance institutions, ATMs, and Point of Service terminals, in addition to financial literacy and mobile infrastructure. Map 2 is a 'heat-mapping' of the development of each country's infrastructure; countries that are shaded more darkly have a more robust infrastructure.

Payment Infrastructure connects to savings-linked social protection programs in two distinct but interrelated ways: 1) a more developed payment infrastructure enables cheaper, more efficient electronic delivery of social protection payments, and 2) mobile payments offer enticing possibilities to safely and transparently reach those in even the most remote corners of the world. In addition to increasing efficiency and decreasing corruption, both of these developments also offer significant synergies with savings-linked social protection, as electronic and mobile payments are much easier to bank than cash.

A. Electronic Payments

NetHope, a leader in the movement of governments toward electronic payments and partner with USAID on its "Better than Cash" campaign, identifies five reasons to motivate the shift toward electronic payment systems: cost savings, transparency, security, financial access, and innovation in

new markets.[37] Specifically, on the point of safety, NetHope points out that women are the most common targets of violence when holding cash sums, and on the point of transparency and security, that "in highly insecure environments, up to 30 percent of payments are lost to "sticky fingers and/or systematic corruption."[38]

The multitude of benefits of electronic payments has galvanized action from scores of countries, donors, and multi-laterals. For instance, even though not all countries see an immediate cost-savings in their switch to e-payments, other considerations such as safety and greater transparency may make the short-term investment worthwhile. Because of this broad, multifaceted payoff, many more countries than those discussed below have joined the movement away from cash, including India, Pakistan and Jamaica.

Fiji - A Voucher System in Need of Repair

In 2009, Fiji's Department of Social Welfare (DSW) distributed social welfare benefits via a cumbersome voucher system. Two times a year, DSW staff spent up to two months printing and organizing books that contained six months of vouchers. These books were then distributed to pick-up points, where some clients had to wait for up to a day to collect them, and many spent up to half the benefit in travel costs alone. Luckily, at the same time as this voucher system was plagued with hassles and inefficiencies, a strong payment infrastructure was emerging throughout the country, with 1,700 electronic point-of-sale devices and the mobile operators Digicel and Vodafone extending their reach.[39]

Around this time, the Pacific Financial Inclusion Program approached the DSW with the idea of reforming the government-to-person (G2P) payment system, and it engaged in an activity-based costing exercise to quantify the inefficiencies of the existing system and the cost savings that would be enabled from the change. As Table 1 from PFIP's Expanding Financial Inclusion in the Pacific Report demonstrates, the estimated cost-savings of the leading bid (of Westpac Bank) would save upwards of 25 percent of the program budget. In addition, PFIP closely examined the needs, habits, and distribution of beneficiaries, and as such were able to address government concerns about how this shift would affect the most important group involved. In this way, PFIP was able to convincingly demonstrate that the government had compelling reason to make the switch to electronic payments.

After gaining the requisite approvals, the government released a tender for the payments service, and in November 2010 awarded the tender to Westpac Banking Corporation. Westpac's bid was incredibly competitive, including free bank cards for recipients to withdraw benefits, access to its 37 ATMs and 893 Point-of-Sale (POS) agents throughout the country, a no-fee bank account with 10 free withdrawals per month and financial education. As of May 2011, over 18,500 recipients had been transferred to the electronic payment system, and outreach to more remote areas was to be completed by November.[40]

Colombia - A Dramatic, Unprecedented Shift to Cashless

Colombia is a country that has seen one of the most profound shifts away from cash payments in the past two years. In 2009, 76 percent of recipients received cash payments, while in 2011 only nine percent did.[41] Why such a marked change?

First and foremost, Colombia's earlier payment platform had a number of disadvantages, including long queues, branch congestion, and bank limitations on when grants could be collected. Given these shortcomings, when a new tender was created in late 2008, *Accion Social* – which

[37] Net Hope. Request for Information. *Request for Infomation*. (Fairfax, VA. 2011, November)
[38] Ibid.
[39] Net Hope. Request for Information. *Request for Infomation*. (Fairfax, VA. 2011, November)

[40] Ibid.
[41] Bold, C., Porteous, D., & Rotman, S. *Social Cash Transfers and Financial Inclusion: Evidence from Four Countries*. CGAP. (Washington: CGAP, 2012).

manages Colombia's newly integrated welfare system – sought bids to shift payments into savings accounts.

In light of the geographic coverage required by the tender and the clientele involved, only one alliance found it worthwhile to submit a proposal (*Banco Agrario* and *Assenda*, which was called *Union Temporal*). The contract was awarded in February 2009, and by May of 2011, 1,988,296 of 2,201,560 of the total recipients (roughly 90 percent) were receiving their payments in accounts.[42] Cash payments are still done for about 270,000 recipients, who did not want accounts, lacked ID or missed the account opening. The *Assenda* debit card can be used for withdrawals at merchants, bank branches, and ATMs, and can be used for purchases at *Assenda*-affiliated merchants. Deposits must be made at a brick and mortar bank branch, and clients are allowed two free withdrawals per month.

While beneficiaries were very happy with the increased convenience of accessing their money, the program's shift to electronic payments has had some shortcomings. The program saw a four-time increase in fees over the branchless bank payments utilized from 2001-2008, though this was primarily for costs related to opening bank accounts (and not the shift to electronic payments) and investments in payment infrastructure that would also be a one-time expense. In addition, despite having a savings account, the majority of recipients continued to withdraw the totality of the grant the day it became available, which perpetuated the queues and waiting times, as well as the strain on the distribution network. In its next tender, *Accion Social* hopes to generate more competition among bids to drive down costs, and will both make four payments a year (instead of six) and increase the amount of time during which payments can be collected, which together should reduce administrative fees by about 3 percent.[43]

Kenya - Why Start With Cash In The First Place?

Not only are programs that began with cash payments switching to electronic payments, but new programs are also experimenting with electronic payments from the get-go. For instance, Kenya has been providing small cash grants to poor and vulnerable households via the Hunger Safety Nets Program (HSNP) in geographies that are particularly prone to drought. Payments in the program were complicated by the fact that these regions generally have low level of infrastructure development – such as roads, mobile coverage or electricity. Moreover, program administrators wanted to minimize the disruption to the fragile livelihoods of recipients.

The solution to this quandary was nuanced and multi-faceted. All recipients were given a biometric Smartcard that contained both fingerprints and a photo. They were able to collect their payments at any of 150 agents, which were either owners of small shops (many of whom were issued solar chargers for their POS devices) or banks. The agents were then able to reclaim the cash from Equity Bank, in addition to a small commission. In this way, beneficiaries gain a new way to save (or at least store) money on their smartcards, their livelihoods are minimally disrupted, and the smartcards are easy to use and require minimal training. In addition, agents at small shops obtain a new opportunity to generate revenue through commissions, though they also have the responsibility of maintaining the necessary liquidity for cash payouts.[44]

The implementation of the Smartcards/POS in Northern Kenya had high startup costs, though this was likely to be the case regardless of the platform chosen because of initial conditions. In addition, they presented the risk of technological failure through fingerprint verification, and the cards were easily lost or damaged.[45]

[42] Dias, D. *G2P Research Project: Colombia Country Report.* The World Bank, CGAP. (Washington: CGAP, 2011).
[43] Ibid.

[44] Barca, & al, et. *Paying Attention to Detail: How to Transfer Cash in Cash Transfers.* (Manchester: Chronic Poverty Research Centre, 2010).
[45] Ibid.

B. Mobile Phones - The Efficient, Interoperable Wave of the Future?

In recent years, no platform for offering financial services has received more attention than mobile phones. For the nearly 2.5 billion unbanked individuals worldwide (2 billion of whom have mobile phones), mobile technologies offer a potential way to access banking services that have historically been unavailable to them.

In the words of mobile expert Ignacio Mas, "the real opportunity with mobile phones is for the bank to establish a direct, on-demand connection with its customers. Mobile phones make it possible to think of a future where banks and their customers have daily interactions which are based less on the banks' products and more on the customers' goals. In a successful mobile banking relationship, clients would be reaching out for their phone every time they have money coming in."[46]

The potential of using mobile phones to deliver social protection payments has certainly caught the attention of governments, multi-laterals, and the private sector. Theoretically, mobile delivery can be significantly cheaper than card or ATM-based delivery, at least when a robust mobile infrastructure is already in place and mobile ownership is high. In addition, there are manifold opportunities to leverage mobile phones not only for receiving and storing social protection payments, but also for accessing medical care, agricultural training, and even clean water. Although different combinations of approaches will make sense in different contexts, excitement about mobile delivery of payments has inspired experimentation in the countries described below, as well as Pakistan, Afghanistan, and Niger. However, to date, Haiti is the only national program to be fully using mobiles to deliver social protection payments, which shows that more exploration is needed to fully realize the potential of delivering social protection payments via mobiles.

[46] Mas, I. Making Mobile Money Daily Relevant. (2012, March).

Kenya - M-PESA for All?

Probably the most excitement for mobile banking has been generated in Kenya, where Safaricom has had remarkable success with the M-PESA mobile money platform it launched in 2007. M-PESA Customers, which now include upwards of 54 percent of Kenya's adult population, have an electronic money account that is linked to their phone number and are able to deposit and withdraw cash at their local agents, who are paid commissions by Safaricom.[47] Customers can also use their phones to transfer funds to others, pay bills, and purchase airtime, though no transaction can be in excess of $500.[48]

The most prominent attempt at utilizing M-PESA for social transfer payments occurred within Concern Worldwide's Post Election Violence Recovery (PEVR) program, which was designed to mitigate the negative effects of the violence following national elections in late 2007. The PEVR program was implemented between September 2008 and July 2009, included a total of 6,522 households and benefited 37,863 individuals.[49] To enable the mobile phone transfers, mobile phone were given out to recipients who needed them. However, since registering for M-PESA also requires ownership of an original national ID card, those who could not comply chose a nominee to receive the transfer on their behalf.

In the context of this emergency program, the use of M-PESA was deemed very successful.[50] No significant problems were reported and recipients were clear in their preference for M-PESA, even in rural areas where the network was patchy and amongst people who were not confident in using phones. Individuals were able to collect money when and where they wanted, which increased both convenience and safety for the transactions. Fraud was less common, and the technology used had some empowering

[47] Mas and Radcliffe, Mobile Payments Go Viral: M-PESA in Kenya. *Capco Institute's Journal of Financial Transformation*, No. 32, p. 169. (August 2011).
[48] Ibid.
[49] Barca, & al, et. *Paying Attention to Detail: How to Transfer Cash in Cash Transfers.* (Manchester: Chronic Poverty Research Centre, 2010).
[50] Ibid.

spillover effects on beneficiary communities, as some developed security alarm systems to prevent cattle-rustling and income-generating opportunities to offer payphone services to other community members.[51]

However, many caveats are worthwhile. First, the program operated mainly in areas where mobile telephony and electricity networks already existed. Second, the cost effectiveness of the system was not immediately clear, as the program distributed phones to over 60 percent of households and solar chargers to those without electricity (costs that were one-offs, to be sure).[52] In addition, illiteracy made it difficult for beneficiaries to be certain as to how much has been transferred over the phone, and fees from using M-PESA are highest for small transfers[53] (though Safaricom recently announced fee reductions for small amount transactions). [54]

Haiti - A Country Rebuilding With the Help of Mobiles

Another country whose mobile infrastructure has received a lot of investment is Haiti, which USAID has referred to as the first "mobile banking economy." In the aftermath of the January 2010 earthquake, cash transfers were an essential part of the relief effort, which was challenging with population groups that were transient, dispersed, and isolated geographically. Where a strong banking infrastructure and credit card network existed in the country, NGOs have delivered services using pre-paid and smartcards. In places without this infrastructure, mobile-based solutions emerged as a preferred option. All in all, Haiti has completed more mobile money cash-transfer programs than any other country, including efforts from Mercy Corps, Concern International, Oxfam, HelpAge International, and Oxfam.[55]

Early analyses show that, although mobile money is faster and safer than traditional physical cash delivery or vouchers, it is not necessarily more cost-efficient. However, the case can be made that, as with any new product, mobile money has upfront establishment costs (such as the cost of buying mobile phones for beneficiaries, building institutional knowledge, hiring technical consultants as well as training beneficiaries, merchants, and agents) that must be amortized over a longer time horizon.

Even though costs will likely decline, however, there is still a separate question of whether mobile transfers will lead to greater financial inclusion. On this point, evidence to date is not particularly promising. In one completed project in Haiti that invested heavily in training and community support with the explicit goal of increasing financial literacy and inclusion for beneficiaries, data showed that less than half of one percent of beneficiaries had used their mobile wallet three months after the completion of the project.[56]

In May of 2012, Haitian President Michel Martelly launched Haiti's conditional cash transfer program *Ti Manman Cheri*, a program that provides cash transfers to families with young children in school and living in extreme poverty provided they fulfill "specific commitments designed to improve their human capacities." Specifically, the program's objectives are to reduce the financial burden of education; improve the human capabilities of future generations; improve retention and school attendance of beneficiary children; positively influence the quality of schools and the empowerment of women; and inject liquidity into the local economy.

By far what is most innovative about the program, which aims to have 100,000 beneficiaries by the end of 2012, is that it delivers payments to beneficiary women via mobile phones. This is exciting not only because of the potential to decrease costs, at least in the long-run, but also for the increase in safety and transparency as well as the opportunity for financial inclusion and savings.

[51] Ibid.
[52] Ibid.
[53] Ibid.
[54] Ravi, A., & Tyler, E. *Savings for the Poor in Kenya*. New America Foundation. (Washington: New America Foundation, 2012).
[55] Dalberg. *Plugging into Mobile Money Platforms: Early Experiences of NGOs in the Field.* (Dalberg, 2012)
[56] Ibid.

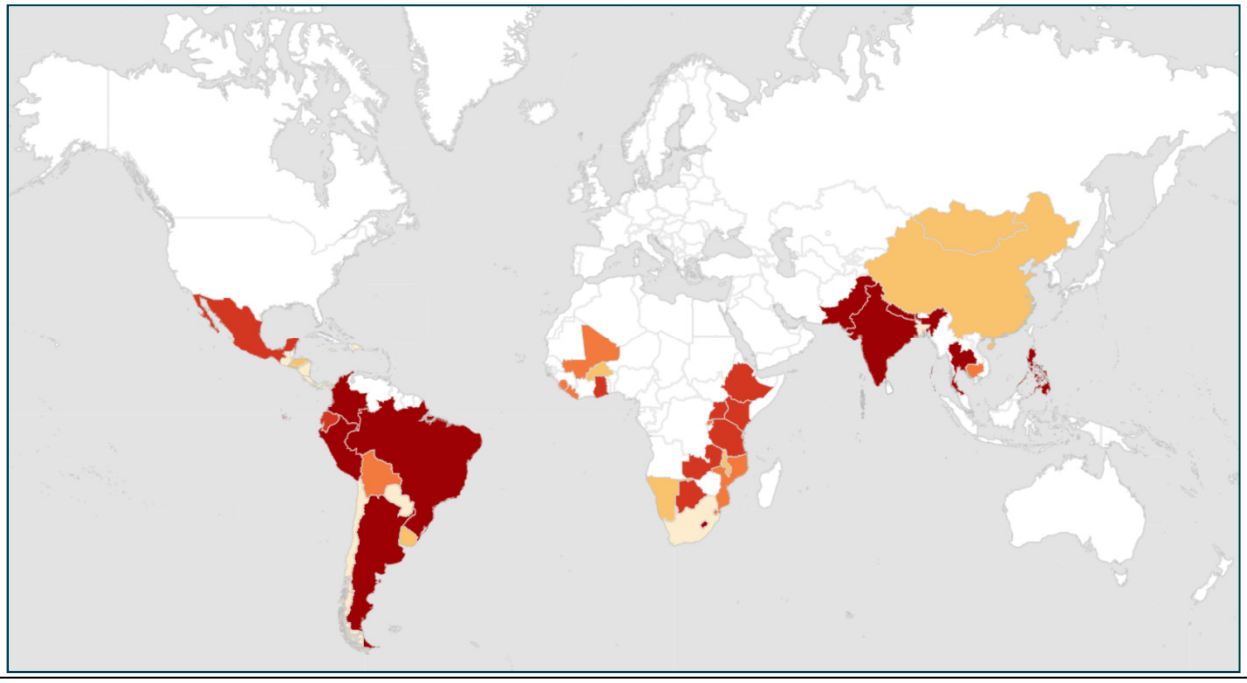
Takeaways

As the payment infrastructure in countries around the world becomes more sophisticated, the case for delivering social protection payments without physical currency becomes inexorably stronger. Although specific obstacles will be encountered in this transition, obstacles that will depend on context and approach, the transition is likely to bring a number of benefits, including increased convenience on the part of beneficiaries, decreased administrative costs and an increase in transparency. Cost savings are likely in the long run, but up-front investments will be necessary to build out infrastructure and local capacity. The extent of savings on the part of governments and beneficiaries will be heavily dependent on the tender process and winning bids.

Mobile telephony has an amazing potential to provide financial services to remote populations at a very low cost, especially in areas in which it has great penetration and wide coverage. This is especially true if it is feasible to distribute SIM cards as opposed to phones, as Concern Worldwide has experimented with in Kenya. However, many issues remain for the rapid and widespread uptake of mobile financial services as a delivery platform, including the reliability of the electric grid, transaction fees and beneficiary/agent capacity.

In light of these trends in program structure and payment infrastructure toward savings-linked social protection models, it is not surprising that many countries, foundations and governments are promoting financial inclusion through their social protection payments. The next section of this paper will examine the successes of these efforts and the challenges they have faced.

Map 3. Political Will



This is another of the five heat-maps of composite variables that influence countries with cash-transfer programs' potential to implement savings-linked social protection models that are found on New America Foundation's Global Savings and Social Protection website. This map shows nine different variables relating to a country's political will for financial inclusion, including whether they have an agency responsible for encouraging rural access, savings, branchless banking and financial literacy. A country's 9 variable scores were then used to compute a composite Political Will score. Source: New America Foundation. *Global Savings and Social Protection Database.* July 2012.

Part III: Experiments in Financial Inclusion and Asset Building

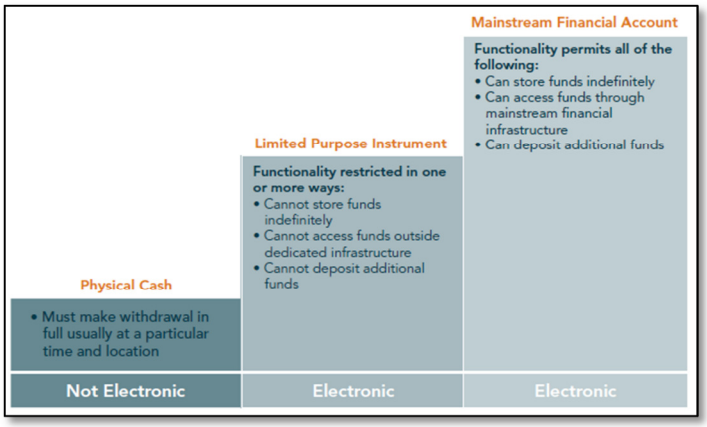
Although evidence is only emerging with respect to the benefits of linking savings and social protection payments, many countries are already leading the charge toward greater financial inclusion and promoting savings among poor households. In order to analyze which countries with cash-transfer programs have a demonstrated interest in and commitment to promoting financial access and savings behavior, the Global Assets Project analyzed nine variables, including whether they have an agency responsible for encouraging rural access, savings, branchless banking and financial literacy. Map 3 is a 'heat-mapping' of how enabling the political environment is in these countries for financial inclusion efforts. Specifically, countries that are shaded more darkly have these particular agencies or policies in place. A more detailed evaluation of financial inclusion and saving promotion efforts is below.

A. Financial Inclusion

Accompanying the push to electronic payments, at least in many cases, is a push for financial inclusion among beneficiaries of social safety nets. In addition to being a complement to e-payments, financial inclusion is largely seen as helping beneficiaries graduate from poverty, be more resilient and be better prepared for financial shocks. In other words, there has been a growing realization for many that financial inclusion and social inclusion are part of the same effort.

It is worth noting that financial inclusion is a spectrum, and different approaches to financial inclusion may make sense in different contexts. For instance, as CGAP has suggested three main delivery methods for social protection payments: cash, limited-purpose instruments, and mainstream financial accounts. With cash transfers, beneficiaries have to appear at payment points and "there is no store of value created for the individual." Limited purpose instruments, such as debit and cash cards, "transfer the grant to (at least) a notional account earmark for the recipient," which enables more choice in terms of location and timing of grant withdrawal, and potentially the ability to store funds. With mainstream financial accounts, recipients "benefit from the same functionality as any other user of such an account."[57]

Figure 2: CGAP Payment Categorization



Source: Bold, C., Porteous, D., & Rotman, S. (2012). *Social Cash Transfers and Financial Inclusion: Evidence from Four Countries.* CGAP. Washington: CGAP.

In addition to examples discussed below, India, Mexico, and Brazil are also experimenting with how formal financial services can enhance the impact of their government to person social protection payments.

Peru - The Power of a Passionate Advocate

After her confirmation as Peru's first Minister of Social Inclusion, Carolina Trivelli announced that "All recipients of the Ministry's monetary transfers will receive benefits through the formal financial system. This will promote transparency in the delivery of public resources, and above all it will ensure that the state, in addition to providing funds, will be providing access to the financial system and supporting processes of financial inclusion."[58] Minister Trivelli has stressed the need to incorporate platforms for advancement within government programs and describes savings accounts as the "type of financial service that extremely poor people need the most." Shortly thereafter,

[57] Bold, C., Porteous, D., & Rotman, S. *Social Cash Transfers and Financial Inclusion: Evidence from Four Countries.* CGAP. (Washington: CGAP, 2012).
[58] Interview

Peru announced that all recipients of its new "Pension 65" program would have their benefits deposited in free bank accounts.

For over a decade, Peru has been experimenting with incentivizing savings among the poor (as will be discussed in greater detail later), and this has been at the center of Minister Trivelli's research and advocacy. In 2001, the *Proyecto de Desarrollo Corredor Puno-Cusco* provided incentives to poor families to save, and Trivelli's evaluation showed that participants' savings was six times the amount of the financial incentives given, and that 60 percent had started small businesses.[59] An evaluation of a similar savings project launched in 2005 showed that recipients were better able to manage unexpected health and emergency costs that otherwise would have led to financial ruin.[60] In 2009, Trivelli helped take this idea to the national stage through a pilot savings component of Peru's public benefits program *Familia JUNTOS*. As had been the case in similar programs throughout Latin America, *Familia JUNTOS* had reduced inequality and improved health and education outcomes in Peru, but it had no clear exit strategy for beneficiaries. The savings pilot filled this gap by helping recipients to build and protect wealth and, in many cases, become self-sufficient.

Fiji - The Influence of Donors

Fiji has a relatively small population base (46 people per sq. km) and poor infrastructure, especially outside of urban areas. Financial access has remained low for most households. In 2009, the Reserve Bank of Fiji required commercial banks to set up microfinance units with services throughout their branch network. As stated in the Pacific Financial Inclusion Program (PFIP) Report, "this directive coincided with a new, coordinated donor focus on inclusive finance that include[d] AusAid, the European Union, UNCDF and UNDP (which make up PFIP), the Asian Development Bank and International Finance Corporation."[61]

Fiji's movement toward an electronic payment system, away from its unwieldy manual vouchers (described above), came at a time when many key stakeholders in the government were open to other changes. Thus, in one fell swoop, an electronic payment system was implemented, financial inclusion was promoted, and the feeling was widespread that progress had been made in helping recipients of public benefits 'graduate' from poverty. Although the government accepted the financial inclusion component as part of the project, the primary rationale for the switch was the cost savings illustrated in PFIP's pricing analysis.

As discussed above, as of May 2011, over 18,500 recipients have been transferred to the electronic payment system, and the country broke new ground in the Pacific region by being the first country to implement savings-linked G2P payments.

Colombia - One Bid Too Few

As discussed above, Colombia's switch to electronic payments did not result in immediate cost savings; instead, a primary driver of its movement was the importance it placed on financial inclusion in a variety of government programs, including its cash-transfer program *Familias en Accion*. Financial inclusion was a pet cause of former president Alvaro Uribe, who oversaw the creation of *Banca de las Oportunidades* (BDO), whose aim is to increase access to formal financial services for the poor, both through encouraging banks and NGOs to provide such services, and through lobbying for regulatory reforms (such as having payments delivered electronically into accounts for the *Familias* program).

Again, somewhat similar to what was seen in Fiji, the move away from cash was primarily seen by the government as a

[59] Trivelli, C. Un Año Ahorrado: Primeros Resultados del Programa Piloto "Promocion del Ahorro en Familias Juntas". *Working Paper(159)*. (Lima, Peru: Proyecto Capital, 2011).
[60] Ibid.

[61] Leonard, M. *G2P: Expanding Financial Inclusion in the Pacific*. Pacific Financial Inclusion Programme. (Suva: UNCDF, 2011).

means to be efficient, reduce costs, and ease the lives of recipients.[62] From BDO's perspective, *Familias* could advance its financial inclusion goals, and, in its opinion, savings accounts would serve as a gateway to other financial services for beneficiaries. *Accion Social* knew that having financial inclusion as an explicit goal of its program would increase costs, and early data are not conclusive on the benefits that recipients obtain through having a savings account.[63] In addition, some at the agency are skeptical of the bank's fee structure (which was complicated by a lack of real competition), and some see a genuine trade-off between cash transfers meeting basic needs and being the foundation for asset accumulation.[64]

That said, since most recipients are already receiving money into accounts, the real question in Colombia seems to have shifted to how to make the accounts more profitable for banks (and thus, over time, cheaper for the government) and more meaningful for the account holders. For instance, one government department has been matching savings of *Familias* recipients to test its results on income generation. With greater income generation, clients become lucrative customers for the banks; in addition, banks strongly prefer that recipients not withdraw the entirety of their benefits immediately, so that they can have some time to make use of the funds. Along similar lines, BDO has been encouraging formal savings in 12 municipalities via the *Programa de Promocion de la Cultura de Ahorro* (PPCA). Preliminary results from the program are modest, especially with respect to savings accounts serving as a gateway to other financial services; however, it is clear that the majority of beneficiaries are savings money, even if not in formal bank accounts.[65]

Kenya - The Role of the Tender

The payment provider tender process for the Hunger Safety Nets Program was initiated in 2007 by Financial Sector Deepening (FSD) Kenya, which is a not-for profit funded by UK's Department for International Development (DFID). FSD brought to the table a strong commitment to and engagement with 'financial inclusion,' and this was reflected in its ultimate selection of Equity Bank, which has a long standing commitment to (and has constructed its business model around) serving low-income clients. Over time, Equity has been able to translate a large number of small deposit clients into a profitable loan portfolio, largely through the use of innovative products and technology, and the fact that their clientele was largely ignored by other major players in the market. At the end of 2009, according to a report by FSD, Equity's Kenyan operations had "more than 50 percent of all bank accounts in the country."[66]

The HSNP has provided Equity Bank with subsidies and transactions to help build out its agent infrastructure throughout Kenya. In addition, by choosing smartcards for its Hunger Safety Nets Program intervention, the program also created a straightforward opportunity for financial inclusion. The smartcards were designed with the option of storing value on them, and in the second phase of the project more financial services can be added.[67] In addition, Equity Bank's expansion of financial infrastructure can be of service to all households in the area.

It is worth noting that Equity Bank's involvement and the development of such robust and reliable infrastructure were made possible by the project's scale and lengthy timeline, which itself depended importantly on the commitment of DFID. With all of these parts in place, the business case was clear for Equity Bank to establish an agent network capable of distributing money to over 35,000 vulnerable and isolated households in the formidable deserts of Kenya.[68]

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[62] Dias, D. *G2P Research Project: Colombia Country Report.* The World Bank, CGAP. (Washington: CGAP, 2011).
[63] Ibid.
[64] Ibid.
[65] Ibid.

[66] FSD Kenya. Against the Odds: Implementing Social Protection in Northern Kenya. *(5).* (Kenya: FSD Updates, 2010).
[67] Barca, & al, et. *Paying Attention to Detail: How to Transfer Cash in Cash Transfers.* (Manchester: Chronic Poverty Research Centre, 2010).
[68] FSD Kenya. Against the Odds: Implementing Social Protection in Northern Kenya. *(5).* Kenya: FSD Updates. (2010).

B. Savings Pilots and Product Design for the Poor

Ultimately, cash-transfer programs aim to help families build assets, be more resilient to shocks, and graduate from poverty. A natural way of extending and enhancing the impact of cash transfers is to enable and encourage savings among beneficiaries. Several Latin American countries, in addition to Fiji, Bangladesh, and Nigeria, are at the forefront of this movement, and a close examination of the structure of their pilot efforts is informative in our consideration of how these models can be most successfully implemented.

At the same time, many private sector actors are getting involved in these pilots and creating innovative products in order to tap into what C.K. Prahalad has referred to as "the fortune at the bottom of the pyramid." Over the past year, the New America Foundation's Savings for the Poor Innovation and Knowledge Network (SPINNAKER) has aggregated and standardized information about savings products for the poor around the world, in addition to writing in depth about the savings landscape in the Philippines, Kenya, and India. In Latin America, under the auspices of the Inter-American Development Bank (IDB), product experimentation is taking place in El Salvador and Colombia, as well as in the Dominican Republic (discussed below).

Peru - An Early Adopter

In 2001, *Proyecto de Desarrollo Corredor Puno-Cusco* (PDCPC) was launched by *Fundacion Capital* and the Ford Foundation. The program had two primary goals: to develop and strengthen markets, and to help rural populations use basic financial services. With respect to the second goal, women received incentives to open bank accounts that were of equal value to their initial deposit (up to 100 Sol, or USD 28).[69] Women also received incentives to increase the amount of money in their accounts, which was equal to 25 percent of the increase in their accounts each month. Women were also eligible for payments to 're-capitalize' their accounts, at the rate of 20 percent of the amount they withdrew, up to 700 Sol (USD 200),[70] if these costs were for children's education, health expenses or commercial investments.[71]

The project benefited 7000 women, and the results were as follows: the amount of money that participants saved was six times the amount of incentives that they were given. In addition, women who participated in the project gained trust in the formal financial system, and made regular use of their accounts over the four year project duration. Perhaps most importantly, although 57 percent of participants withdrew their money from their accounts at the end of the project, 2 years after the end of the project, 42 percent of the women were still actively using their accounts.

Most recently, in October of 2009 Peru launched the pilot Program *Promocion del Ahorro en Familias Juntos* to connect savings opportunities to their national cash-transfer program and explore/design graduation schemes. In addition to financial literacy classes, the program included the following financial incentives to save: a bi-monthly lottery to give away baskets of basic living necessities worth 180 Sol (USD 58)[72] to those participants who had satisfied the educational and health conditions of the program and maintained a minimum balance of 10 Sol (USD 3).[73] This structure incentivized both completion of co-responsibilities and savings strategies.

The program benefited about 3800 women. One year into the project, preliminary results were impressive: in one district, from a baseline of 84 percent of women not saving, 95 percent had maintained a balance of greater than 10 Sol(USD 3).[74] Another important finding was that the accrual of savings in these accounts was not linear, or an attempt to simply build a large pile of money: instead, the

[69] 2001 conversion, January 1

[70] 2001 conversion, January 1

[71] Trivelli, C., & Yancari, J. Las Primeras Ahorristas del Proyecto Corredor. *(153)*. (Lima, Peru: Instituto de Estudios Peruanos, 2008).

[72] 2009 conversion, January 1

[73] 2009 conversion, January 1

[74] 2009 Conversion, January 1

account was a tool of financial management, to safely accrue and spend money in the most desired way.

Colombia - Financial Education vs. Savings Incentives

Inspired by savings pilots in Peru, in 2007 *Accion Social*, in collaboration with Ministry of Agriculture and Rural Development and International Inter-American Agriculture Cooperation (IICA), launched *Mujeres Ahorradoras en Accion* (MAA) in Colombia with the goal of "contributing to the overcoming of extreme poverty of women who are vulnerable and displaced, opening possibilities of real access to microfinance and incentives that foment a culture of savings and life insurance, capacity building, and training in productive ventures."[75] The project's methodology had three foci: human development, entrepreneurship, and gender awareness. During the nine month cycle of asset building, recipients received financial literacy and budget management classes, were given free bank accounts, and were able to make two transactions a month.

In terms of incentivizing savings, during the pilot phase, no minimum deposit was required, which led some women to never deposit any funds into the accounts despite the incentives they were given. Thus, in the first expansion, a minimum of COP 50,000 (USD 23) was required.[76] Since some women had trouble putting together such funds on short notice, for Phase II participants were given some leeway in the time they were allowed to gather the opening funds. As an incentive to save, participants were given 50 percent of the amount that they saved every three months (up to 50,000 each cycle), for a maximum total incentive of COP 150,000 (USD 69) over 9 months. Importantly, participants could not use/access the money in their accounts during the 9 months, thus decreasing the possibility of them seeing the accounts as a tool for financial management.

From a pilot class of 6,000 women in 11 municipalities, the program's first expansion (in March 2009) reached 14,000 women, and in its next phase (April 2010) hoped to reach 13,000 more, totaling over 30,000 in 115 municipalities.[77] 80 percent of participants in the pilot phase effectively saved, and 90 percent invested money in their home, business or other life expenses such as debts.[78] As of 2009, only 2.4 percent had cancelled their accounts, and half of the women who maintained their savings said they did so in order to continue saving. However, it is worth noting that after the program terminated, very few continued to contribute money to their accounts because they did not receive additional incentives to do so, although they saved in other illiquid ways such as seeds and animals. Still, the first expansion of the project alone managed to mobilize savings of almost 2 million USD.[79]

In 2008, as described above, Colombia decided both to make payments for *Familias en Accion* through deposits in savings accounts and attempt to promote a culture of savings through its *Programa de Promocion de la Cultura de Ahorro* (PPCA). The two tools used by the project were financial education and monetary incentives. In addition, with the vision that the project might expand in the future, the government commissioned a parallel impact study.[80]

The impact study was incorporated into the design of the pilot, and there were four groups of participants: 1) those who received financial education and a cash incentive, 2) those who only received financial education, 3) those who received a cash incentive, and 4) those who received nothing other than a bank account. The financial incentive consisted of a quarterly lottery in which the prize was 10

[75] *Mujeres Ahorradoras en Accion*. (s.f.). Retrieved 04 13, 2012, in www.mujeresahorradorasenaccion.com/proyecto.aspx
[76] 2007 conversion, January 1

[77] Maldonado, J. H., & Moreno, R. d. *Los Programas de Transferencias Condicionales: Hacia La Inclusion de los Pobres en America?* (Peru: Proyecto Capital, 2011).
[78] Zilveti, V., & Fuentes, L. Una Mirada Externa del Proyecto Mujeres Ahorradoras en Accion: Lecciones Aprendidas de Esta Experiencia. *En Breve(13)*. (Proyecto Capital, 2010).
[79] Accion Social. *Linea de Base y Evaluacion Mujeres Ahorradoras en Accion: Una Sistematizacion desde la Mirada de sus Protagonistas.* Accion Social. (Bogota: Accion Social, 2010).
[80] Proyecto Capital. Estudio de Caso de la Experiencia de un Programa Piloto de Ahorro en Colombia. *En Breve*(29). (2012).

times her average savings over the prior quarter, up to a maximum of USD 2500. [81]

Based on transactions between June 2009 (before PPCA) and 2011, average balance in all of savings accounts increased, including the control. The greatest increase in balances was seen with the education and incentive group, with an 84 percent increase in average account balance. Surprisingly, the increase in account balances was similar between the control groups and the groups that received just financial literacy and incentives. In addition, there was little difference between different treatment groups on whether or not the recipients withdrew the entire grant at once, with an overwhelming 91 percent choosing to do so.[82] Lastly, although "results so far show a positive-growth trend...[they] are not decisive in terms of savings balance," so a "more detailed analysis of future results" is necessary before expanding the model.[83]

Dominican Republic - Fresh Out of the Gate

In March 2011, the IDB approved a project *Vinculacion de los Pagos de Proteccion Social con el Ahorro* to increase the availability of financial products and services directed at low-income populations in Latin America and the Caribbean.[84] Specifically, the project aimed to create business models to develop and implement savings products and programs for those who are receiving conditional cash transfers or other social protection payments in the region, with the end of reducing the vulnerabilities to which they are exposed. The program, which intends to benefit 15,000 individuals, has a total budget of over 6.5 million dollars.

The primary component of the project is to design and develop appropriate savings products for low-income households. In order to accomplish this, the project contemplates the following activities: 1) designing and adjusting different savings products to be tested through a pilot, 2) defining and testing marketing strategies for savings products, and 3) identifying and incorporating alternative distribution and uptake channels for this target population. As a result, by the end of the project it is hoped that at least one savings product will be available to all populations that receive social protection payments from the Dominican government.

Takeaways

As financial inclusion movements begin to gain traction in countries around the world, a number of threads are common to their efforts. First, oftentimes an individual champion with the right connections can tip the scales of government policy, whether that individual is inside the government (Peru), within the donor community (Fiji) or the private sector (Kenya). Financial inclusion can also be a natural 'add-on' to the shift to electronic payments, even in countries in which independent political will for such a movement may not be present.

After a government decides to adopt financially inclusive policies, additional challenges may be encountered in the promotion of savings behaviors. One large obstacle that has been encountered in savings pilots is how to encourage households to continue to save after matched savings, lotteries, or other incentives are taken away. While matched savings have shown a strong effect on contributions during the project, lotteries are less expensive and potentially as a result more sustainable. Also, if beneficiaries are able to access their accounts during the pilot, there is a greater risk that they will take money out, but they also may use it in the longer-term as a financial management tool. Lastly, central to all efforts to promote savings behavior will be the products and education that are being offered and marketed to low-income households.

As these financial inclusion and savings efforts continue to develop and expand, there is much that they can learn and

[81] Ibid.
[82] Dias, D. *G2P Research Project: Colombia Country Report.* The World Bank, CGAP. (Washington: CGAP, 2011).
[83] *Mujeres Ahorradoras en Accion.* (s.f.). Retrieved 04 13, 2012, in www.mujeresahorradorasenaccion.com/proyecto.aspx
[84] IDB. *Promoting a Savings Culture and the Use of Savings Product for Solidaridad Beneficiares.* IDB. (Washington: IDB, 2012).

leverage from the general trends in program structure and payment infrastructure. We turn to that in our next section.

Synthesis: How Can These Trends Inform Financial Inclusion Efforts?

How can a deeper knowledge of the trends in cash-transfer programs and electronic payment systems, as examined in Parts I and II of this paper (and summarized in Annex 1), inform the financial inclusion efforts and savings pilots highlighted in Part III? This section examines each trend in turn.

Trends in Program Structure

Long-Term Interventions

Long term programs enable savings-linked social protection efforts both because they facilitate long-term, systematic investment on the part of the private sector and because they facilitate long-term behavior change on the part of beneficiaries. If banks can count on consistent payments from the government for a number of years, it is easier for them to incorporate cash-transfer programs into their strategies for expanding their client base, as was seen in Westpac in Fiji, and for investing in payment infrastructure, as was seen with Equity Bank in Kenya.

On the beneficiary side, long-term interventions give recipients an opportunity to modify their savings habits. For instance, if banking or mobile phone fees are only covered for the duration of a project, as was the case in Haiti, or matched savings are only provided for a fixed period of time, then participants may be less likely to shift their savings permanently. However, with extended time horizons, it may be more sensible for recipients of cash transfers to modify their asset accumulation strategies in the long run.

Segmented Interventions toward Graduation from Poverty

Savings-linked approached to social protection have a natural place in programs that emphasize the gradual building of assets with the ultimate view of graduating from poverty. As illustrated in Bangladesh in Chile, these programs begin with regular transfers of assets (financial and otherwise), and over time help beneficiaries start productive ventures, manage their finances, and build their own asset base. A natural component of these and similar programs is the encouragement of formal savings mechanisms to help beneficiaries make their money go further.

In addition, from the financial provider perspective, a graduated approach to asset building can also open up opportunities. If beneficiaries begin saving at different times, different financial products can be provided to them to best suit their needs. For instance, banks could consider offering tailored commitment savings products, in which clients put in small but steady deposits in order to reach a target goal, to recipients at different stages of their progression toward graduating from poverty.[85] This should also lower costs on the side of the banks (and as a result the government), as maintaining savings accounts for beneficiaries who do not make use of them is quite costly.

Trends in Payment Infrastructure

Electronic Payments

As was seen in Fiji and Colombia, once governments see the case for moving away from cash, whether it be for the potential decrease in administrative costs, increase in transparency or safety of beneficiaries, enabling recipients to store and save money involves little additional effort. One important factor for how much this add-on will cost and how successful it will be are the bank tenders on government bids. For instance, Westpac's bid in Fiji was quite generous and enabled recipients to make 10 free withdrawals a month, while the Colombian government only received one bid that enabled 2 free withdrawals.

Another factor to keep in mind when linking electronic payments to savings models is raising awareness among recipients. For instance, according to recent research by CGAP in Brazil, *Bolsa Familia* beneficiaries demonstrate

[85] Ravi, A., & Tyler, E. *Savings for the Poor in Kenya.* New America Foundation. (Washington: New America Foundation, 2012).

little understanding of the difference between receiving their payments on cards and into a bank account, such as the ability with a bank account to use a wider network of ATMs and save money. Recipients also fear that savings may disqualify them for further government grants.[86] A similar challenge in shifting recipients into new behavior patterns has been seen in Colombia, where 91 percent of recipients in the PPCA pilot continued to withdraw their full grants even after receiving savings accounts and a variety of financial literacy trainings.

Mobile Banking

Although still in its infancy, the possibility of delivering social protection payments via mobile phones offers exciting opportunities to reach the unbanked in remote, hard-to-reach locations in ways that other platforms cannot match. This model has seen a great deal of success in Kenya, and similar initiatives are underway in other countries such as Haiti. Some of the initial obstacles that will need to be overcome in using this platform include fees for transactions, mobile coverage, and the availability of electricity. In addition, a variety of regulatory issues will have to be resolved in order for mobile banking to be successful for savings-linked social protection payments, such as how much money is allowed to be kept in mobile wallets, whether these accounts can earn interest and under what circumstances deposits are allowed.

As these issues are resolved, mobile banking, and specifically using mobile phones as a platform for payments, has great potential to introduce formal financial services to poor households because of the ease in establishing trust among its users. For instance, in explaining the rapid uptake of M-PESA in Kenya for financial services, a 2010 Bankable Frontiers Associates' study determined that the mobile money payments' instantaneous nature allowed customers to test the service with very small sums before building up enough trust to use it for larger and more frequent transactions.[87] The idea that mobile payments can be the first step on the path to financial inclusion has been put forward by others in the mobile money space,[88] and more recently by the Gates Foundation.[89]

Biometrics

Efficient and speedy payment systems are useless if a strong identification system is not in place to ensure that the proper beneficiaries receive the payments. Biometric technology measures an individual's unique physical or behavioral characteristics, such as fingerprints, facial characteristics, voice pattern, or gait, to recognize and confirm identity.[90] The use of biometric identification is surging, and it has been estimated that as of 2010 over 450 million people in developing countries have had their biometric data recorded, and in the next five years this number is expected to triple.[91] Biometric identification can also be essential in upgrading social protection programs as they extend the "auditable trail" (which is enabled by the electronic payment) all the way to the final recipient, which can improve accountability, transparency and oversight.[92]

[86] Dias, D. *G2P Research Project: Brazil Country Report.* The World Bank, CGAP. (Washington: CGAP, 2011).

[87] Zollman, J., & Collins, D. Financial Capability: Are We Missing the Mark? (2010).

[88] See the 'stylized ladder of financial inclusion' in (Mas and Christen, It's Time to Address the Microsavings Challenge, Scalably 2009) and in (Kendall 2012)

[89] Kendall, J. Can We Achieve Financial Inclusion Faster in Bank-led or Mobile-led Markets? (*CGAP Microfinance Blog,* 2012, March 28).

[90] Whelan, S. *Biometrics Technology.* (Washington: CGAP, 2008).

[91] Gelb, A., & Decker, C. *Cash at Your Fingertips: Biometric Technology for Transfers in Developing and Resource-Rich Countries.* (Washington: Center for Global Development, 2011).

[92] Ibid.

Biometrics in Kenya: an ID at Your Fingertips

As mentioned above, Kenya used biometrics in the implementation of its Hunger Safety Net Program. In addition to the aforementioned benefits of fraud prevention and greater transparency, one particular benefit of using biometrics in the challenging terrain of Kenya was that it enabled certain transactions to take place offline where there was little to no connectivity, as no PIN was required and these transactions could be uploaded at a later point. At the same time, technological challenges included mal-functioning micro-chips and scanners that were unable to distinguish fingerprints. [93]

At the same time, using biometric smartcards entails high startup costs in terms of not only producing the cards but traveling throughout the country to collect information from beneficiaries. In addition, if the technical capacity for registration is employed when the project begins, it is not always straightforward to recollect data at a later time to address complaints or errors. More generally, numbers from 2009 suggest that "smartcards can be up to five times more expensive than magnetic strip cards, and chip-reading POS terminals twice as expensive as terminals for magnetic strip cards."[94]

Conclusion

Over the past two decades, the world has made great strides in the fight against poverty, as most recently shown by achieving the Millennium Development Goal of halving the rate of extreme poverty. However, progress toward this Goal has been uneven across continents, and many of those left in poverty will face even more challenges in improving their life outcomes than their predecessors.

One tried and true tool in the fight against poverty is the cash transfer, which has been especially effective in decreasing inequality in Latin America and the Caribbean, where they have been in use the longest. At the same time, emerging evidence and advances in technology make clear that we have a unique opportunity to greatly enhance the impact of these programs. By leveraging developments in program structure and payment infrastructure, we can not only help poor households do more with their social protection payments, but we can also help governments save money, increase transparency and decrease corruption. Doing this will require a thorough understanding of the opportunities and challenges to advancing sound, effective and efficient savings-linked social protection models. This paper aims to inform and increase that understanding.

[93] Barca, & al, et. *Paying Attention to Detail: How to Transfer Cash in Cash Transfers.* (Manchester: Chronic Poverty Research Centre, 2010).
[94] Pickens, M., & al, et. *Banking the Poor via G2p Payments.* (Washington: CGAP, 2009).

Annex 1: Trends, Locations, Savings-Linkages and Challenges

Trend	Locations	Savings-Linkages	Main Challenge(s)
Longer-term Interventions	Ethiopia, Zambia, Uruguay	Longer time horizons enable both the introduction of beneficiaries into the formal financial system and the accumulation of assets.	In emergency and fragile contexts, consumption needs may trump desires for savings.
Graduation from Poverty	Bangladesh, Chile, Brazil, India, Honduras, Peru	Linking cash payments to savings opportunities helps beneficiary households build their own asset base.	Households who manage their money informally often distrust the formal financial system.
Electronic Payments	Fiji, Colomiba, Mexico, Kenya, Pakistan, India	Electronic payments, whether through ATM cards or bank accounts, are easier to bank than cash payments.	Strong partnerships with banks are necessary in order for savings opportunities to be affordable and convenient for all.
Mobile Banking	Haiti, Kenya, Pakistan, India	The penetration of mobile phones leads to amazing opportunities in terms of providing financial services to those in remote, inaccessible locations	The infrastructure, regulations, and fees associated with mobile financial services can make them inaccessible to households with low or no incomes.

Acknowledgments

The research for this project would not have been possible without the guidance, support, and participation of a number of players. In particular, the author would like to express his gratitude to Jamie Zimmerman and Rodrigo Sermeno for their guidance, contributions and edits on earlier drafts. Thanks are also due to Jamie Holmes and Nicole Tosh for their tireless research and analysis for the project, upon which this report is based. The author would also like to thank the countless academics and staff at multilateral organizations, NGOs, governments and aid agencies for taking the time for interviews. Last but not least, this report would not have been possible without the generous support of the Ford Foundation, the Citi Foundation, CGAP (Consultative Group to Assist the Poor), and the Nike Foundation.

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