



## THE EXPERIENCE OF PARTICIPANTS IN BOTH AN INCENTIVIZED SAVINGS AND CCT PROGRAM IN RURAL PERU\*

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A growing number of countries in Latin America have made commitments to link Conditional Cash Transfer (CCT) programs with savings strategies as a tool to bring the poor into the financial mainstream.<sup>1</sup> As banks, microfinance institutions, governments, and policymakers become more effective at responding to the demand—and potential market share—of poor, “unbanked”<sup>2</sup> households, it is possible that financial services may become the first high-quality, basic service available to the poor on a near-universal basis.<sup>3</sup> In this rapidly emerging field, best practices and re-

search on structuring effective financial products and programs, especially in the context of CCT programs, is in high demand by both policymakers and practitioners.

Peru has led the way in implementing innovative savings programs, having launched two pilots—the Corredor Puno Cusco and Sierra Sur programs<sup>4</sup>— which provide savings accounts, financial education, and financial incentives to poor, rural women in the Southern

1. Currently six Latin American countries have made commitments to link CCTs with savings strategies: Peru, Colombia, Ecuador, Chile, Brazil, and Mexico.
2. Individuals who have not previously used financial institutions.

\* The complete document is available at the Capital Project: <[www.proyectocapital.org](http://www.proyectocapital.org)>

3. Collins, Daryl, Murdoch, Jonathan, Rutherford, Stuart, Ruthven, Orlanda (2009). *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*, Princeton: Princeton University Press.
4. Based on the IDA (Individual Development Account) programs pioneered in the U.S.A.



Highlands. These incentivized savings programs have not been explicitly linked with the Peruvian CCT program, JUNTOS, although it has launched a pilot program to promote savings and financial education which does not provide individual financial incentives for saving. However, there is a small group of participants who are currently involved in both the Sierra Sur and JUNTOS pilot programs in Peru, providing a unique opportunity to gain insight into the experience and financial preferences of poor, rural women who have been offered both a CCT with a savings account, as well as financial incentives to save. This research was made possible through the cooperation of the Capital Project and funding from the U.S. Fulbright Fellowship program.

The overarching goal of this study was to ascertain the design elements of financial access programs that most effectively encourage participants to utilize financial institutions and save. This qualitative study focused on the financial preferences of participants in both programs—i.e. which financial products, incentives, and institutions they preferred, and why. The study also aimed to address general perceptions of financial institutions among the unbanked, and how participants utilized savings and CCT funds. To answer these questions, in-depth interviews were carried out in the spring of 2010 with participants from Coporaque, Peru, who are involved in both the Sierra Sur and JUNTOS programs in order to understand banking preferences between the two financial institutions where they hold accounts: Bank of the Nation (BN), the state bank (through the JUNTOS program) and Credinka, a microfinance institution (through Sierra Sur). Interviews were also conducted with former Corredor participants living in Anta,

Peru, in order to gain insight into why women continue to save once financial incentives are no longer offered. In total, forty-two in-depth interviews were conducted: The interviewed participants were all women with scant economic resources and often low levels of formal education who live in rural Peru. Interviews were also carried out with program staff at JUNTOS, the Ministry of Agriculture (financial education providers), Sierra Sur, the Bank of the Nation, and Credinka.

### KEY FINDINGS FROM THE IN-DEPTH INTERVIEWS

1. **Despite lack of previous experience with banks, women were able to overcome their distrust and fears and begin to save.** Access to basic information about banks through financial education enabled many women to overcome their initial fear of banking and begin to use financial institutions. Of the participants who were involved in both the Sierra Sur and JUNTOS programs and actively saving (19 of the 20 interviewed), 79% were scared of using banks before they began saving. 87% of these respondents thought that the bank would lie or cheat them, 60% felt the bank would not return their money, and 60% didn't know how to go to or use the bank. Participants attended, on average, 6.5 financial education classes between the two programs, after which 79% said that they were able to get over their fears of saving in the bank because of the talks they received from the financial education facilitator; 32% because of withdrawing part of their money, and 11% from seeing their bank vouchers.



*I learned that my money is secure, it isn't risky to save [at the bank]; we also learned to value ourselves and about self-esteem.*

–Gerarda Pillco Cusi, 42 years old, married with four children, 9th grade education; Corredor participant, Anta, Peru

Gerarda (right) showing the ceramics she decorates and sells as part of her small business



2. **Pilot participants perceive their CCT savings as secure.** 85% of the women in the study who were receiving CCTs from the Bank of the Nation feel that if they leave a portion of their CCT at the bank, it will remain securely in their account as savings. Financial education classes and the first-hand experience of seeing that their money is safe at the bank most likely fostered this sense of security among the women, none of whom had ever saved in a financial institution before.

3. **Perceived security of banks is critical to promoting savings and financial inclusion.** Participants' perceptions about the security of financial institutions often overshadows other program incentives and benefits. The majority (60%) of women in both the incentivized savings and CCT programs preferred BN to Credinka because they perceived it to be more secure, often due to delays in the disbursement of incentives at Credinka (through the Sierra Sur program) and because the state bank is larger and has national presence, fostering a sense of security among participants.



*The bank could provide better customer service: so that the [bank tellers] understand us, speak Quechua when I take out a loan.*

–Sofia Ayte Tito, 47 years old, married with four children, 5th grade education, Corredor program; Anta, Peru

4. **Convenience, information, and accessibility of financial services are also highly valued.** When asked what banks can do to serve them better, 37% of all interviewees said they would like faster attention when they go to the bank, citing 4-6 hour waits at the Bank of the Nation on CCT disbursement days. That said, 16% of the savers with accounts at both the Bank of the Nation and Credinka said they preferred saving at BN because they are already required to visit the bank to receive their cash transfer, so they can do other banking while being there. Meanwhile, 20% of all participants interviewed said that they would like to have bank tellers who speak Quechua, 17% would like bank staff to spend more time explaining concepts and services to them, and 11% would like higher interest and/or continued financial incentives.
5. **Unless they are well above market value, incentivized interest rates might not be a powerful savings motivator.** A subsidy of 1.5% has a practical value of mere cents, and is often not well communicated or understood by savers. Of the 20 women in both Sierra Sur and JUNTOS, 25% did not know the interest rate at Credinka and 50% gave an inaccurate guess, despite the fact that an incentivized rate of an additional 1.5% was being offered to these savers.
6. **Savings groups can increase convenience and promote social capital.** Of the 22 former Corredor savers interviewed, 77% are still saving in banks two years after the program and incentives ended, and women self-reported an average of 1,200 nuevos soles (approximately US\$ 400) in current savings. 67% of the interviewed women said their savings group is still meeting, wherein members often take turns going to the bank to make deposits, making it easier to save and providing a source of ongoing support and motivation. 21% of these women have started lending circles within their savings group and often sell foods and handicrafts to raise money for the lending fund.
7. **Traditional savings often complements, or is transformed into, financial savings.** Women who are saving at banks often also maintain livestock to sell in case of emergency, or to transfer into financial savings in the future. Of the women in Sierra Sur and JUNTOS who were interviewed, 47% also maintain livestock as a form of savings, while 75% of the former Corredor participants do so.
8. **Participants and their families began using other financial services, especially when low-cost products were offered and marketed.** Many participants and family members began using other financial products, especially when financial products were convenient to access, low-cost, and marketed to potential clients. None of the participants in both the Sierra Sur and JUNTOS programs had taken out loans from BN, while a few (10%) had done so at Credinka — most likely because this bank offers loans with more favorable terms. Meanwhile, 64% of the former Corredor savers interviewed (who have savings at Credinka) have now started taking out loans at Credinka and/or another bank.



*I keep animals at home to fatten and sell them at a profit, which I then take to the bank.*

-Leonarda Zinzayuca Medrano, 29 years old, married with three children, 9th grade education, Sierra Sur and JUNTOS programs; Coporaque, Peru.

9. **Interviewees disliked program requirements when the terms were not well understood or enforced.** Participants were averse to structured financial products, such as a contract on receiving financial incentives from Sierra Sur, when delays occurred and were not communicated effectively to participants. Delayed incentives were cited by 43% of participants in Sierra Sur and JUNTOS who had stopped saving at Credinka as a reason for discontinuing saving there at the time of interviews.
10. **The majority of participants surveyed have regular access to mobile phones.** Of all participants interviewed, 78% have regular access (within a two week period) to mobile phones, presenting opportunities for introducing new banking technologies that can make financial services more convenient and accessible for poor savers.

## RECOMMENDATIONS FOR IMPROVING SAVINGS MOBILIZATION STRATEGIES

### • Improved Convenience

Financial access programs (for any customer, but especially for the poor) should strive to make services as convenient as possible, to save customers valuable time and money. Based on the responses from interviewees, simple fixes such as hiring Quechua speakers at the bank (or training current tellers), could make a big difference in how savers experience and utilize the bank's services. A major grievance for CCT participants at the time of interviews were the multiple hour waits at the Bank of the Nation, essentially consuming a full day for most participants to access the bank. Currently, all the women from one community are told by the JUNTOS program to come to the bank on the same day, causing large lines and long wait times. The program could change this schedule so that payment days are more flexible, or the bank could hire more tellers to deal with the increased demand on those days.

Another option to increase the convenience of banking services would be to have more mobile banking units that travel out to the communities to disburse CCTs, and also to conduct other banking transactions such as deposits and loan disbursements. Finally, given that cellular phones are becoming more accessible to even the very poor, mobile banking technologies could allow customers to receive updates on their accounts, transfer funds, and even save from their cellular phones.

- **Simplify incentives and ensure reliability of disbursement**

When incentives are complex or confusing, it is difficult for participants to take advantage of them during a given program. To the extent possible, savings mobilization programs should aim to provide incentives that are simple to explain and easy to understand. Finally, when there are delays or problems, programs need to communicate this information in multiple financial education sessions to participants so that they do not lose faith in the program and/or financial institution. In the case of the Sierra Sur program, the process of liquidating accounts and disbursing incentives has taken longer than originally promised, but financial education classes were not offered at the end of the program to assuage women's fears about losing their funds, resulting in many participants withdrawing all their savings and/or losing trust in the program.

- **Provide follow-up services and education to savings groups**

Many former Corredor savers continue to meet on a monthly basis with their savings groups, and individuals expressed interest in continued financial education training. Out-

side enrichment and continued financial training could help savers and groups to maintain trust in financial institutions and continue utilizing banks going forward.

- **Offer attractive financial products to CCT savers at Bank of the Nation**

While the JUNTOS pilot does offer a low-cost savings account for participants, the bank does not offer other financial products geared to low-income populations. Given the opportunities for new customers within the CCT program (400,000 JUNTOS recipients and growing), the Bank of the Nation should expand its product offerings to ensure that low-cost, secure financial products are available and marketed to this population. Additionally, BN should consider offering longer-term, high interest (and/or incentivized) savings options: Corredor savers were offered a fixed-term promotional account in Juliaca, and 52 savers, (or 17.5% of the 297 interviewed for the Corredor study), decided to enroll<sup>5</sup>. In order to accommodate savers' needs to access their funds when necessary, the bank might also consider including an emergency withdrawal caveat within a fixed-term account for participants who want to be able to withdraw their funds in times of critical need.

## OPPORTUNITIES FOR FUTURE RESEARCH

- **Mental accounting as it relates to CCTs and savings**

One of the interesting discrepancies that came up in the interviews was how partici-

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5. Trivelli, Carolina y Johanna Yancari (2008). Las primeras ahorristas del proyecto Corredor Evidencia de la primera cohorte de ahorristas de un proyecto piloto. Documento de Trabajo 153, Serie Economía 48. IEP: 2008.



participants conceptualized their CCT savings. Women often did not “mentally account”<sup>6</sup> for the CCT “savings” at BN in the same way as they did for savings that came from other sources of income. As such, the funds left at the bank from CCTs were often not considered savings. While this study was not able to explore this question in more depth, it would be interesting to pursue how participants mentally account for savings that come from CCTs as opposed to other sources of income.

• **CCTs linked with incentivized savings accounts**

This study looked at women in both the JUNTOS pilot and an incentivized savings program (Sierra Sur), which can be seen as an approximation of what a participant would experience in an incentivized savings program that is linked with CCTs. However, as more Latin American countries adopt savings-linked CCT programs— potentially with financial incentives— it would be helpful to have more research on the effects and savings rates of low-income women in this type of integrated program.

• **Evaluate the “suggested” savings contribution**

One of the ways that financial access programs can affect the amounts that participants save is to set programmatic “targets” or goals. In the case of incentivized savings programs, this usually comes in the form of match caps or incentive limits. However, in the case of the JUNTOS pilot — where there are no financial incentives but savers are entered into a bi-monthly lottery for household goods to promote

savings— one of the ways the program helps set these savings targets is by having program staff and bank tellers “suggest” a savings contribution for participants, usually in the range of 10 to 20 nuevos soles<sup>7</sup> (which is often the amount that participants have been saving on a bi-monthly basis)<sup>8</sup>. Further research could explore offering differing savings “suggestions” to see what effect this might have on savings. Research could also look at participants’ experience in the JUNTOS pilot to better understand their reasons for saving: whether they are saving for specific asset goals, regular money management, or because they consider it a program requirement (since staff are encouraging them to do so).

• **Mobile banking**

While still an emerging field, opportunities for reaching millions of people already exist through information and communication technologies such as mobile banking (mobile phones for distant bank transactions), non-bank agents with point-of-sale terminals, and smart card-based networks<sup>9</sup>. These new and innovative technologies provide an exciting frontier for reaching the poor and unbanked on an unprecedented scale. Further research could look at the potential of using new technologies to help the poor to save and utilize financial services, as well as the relative importance of providing complementary information, financial educa-

6. Thaler, Richard H. and Sunstein, Cass. *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press, March 2008.

7. Approximately U.S.\$3 to \$7 Dollars.

8. Capital Project. “Savings Promotion amongst Women Beneficiaries in the JUNTOS program: Initial Results of a Pilot Project in Peru.” In Short Bulletin #14, Proyecto Capital, March 2010.

9. Ivatury, Gautam and Mas, Ignacio. “The Early Experience with Branchless Banking.” CGAP Focus Notes No.46, April 2008. This brief discusses new banking technologies in Africa, Brazil, Phillipines, among other countries.

tion, and incentives in order to encourage savings and asset accumulation.

#### • Program tweaks and simplified incentives

Future research and pilots could investigate the effects of providing simplified financial incentives that are easy for banks to administer, such as a markedly higher interest rate. Additionally, pilot programs might also test insights derived from research on behavioral economics, such as automatic savings features. For example, direct deposit savings deductions could be made from CCTs every month, perhaps with a default amount “suggested” by the program, to assess low-income participants’ savings and perceptions under these circumstances. Other pilots could test out default options for fixed-term accounts that are offered to participants. Any automatic feature such as this would need to be explained and communicated effectively so that participants do not feel cheated or lose faith in the financial institution.

#### • Potential for long-term asset building

While financial access programs in Peru have had success in helping women to utilize financial services and manage their finances more effectively, it is not yet clear that these programs are enabling women to build as-

sets (such as a small business, home/land, or higher education) in order to move out of poverty over the long term. Future longitudinal research could look at how much these savings are being used toward long-term asset purchases rather than shorter-term management of household finances, how important financial incentives are in encouraging asset-building, and what effect savings programs may have on future generations. ●

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