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OPPORTUNITIES AND CHALLENGES FOR IMPLEMENTING CONDITIONAL CASH TRANSFERS BASED ON USE OF SAVINGS SERVICES IN MEXICO*

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In light of the resources that Mexico's federal government transfers to the poor through various programs and efforts that are under way to expand the financial system, this study discusses the possible convergence between conditional or direct cash transfer programs for the poor and poor people's inclusion in Mexico's financial system through savings.

While some social programs in Mexico have enhanced the human capital of the people they served, they alone have not reduced the effects of external shocks or created a bridge for incorporating beneficiaries into the production chain.

This study identified 15 programs that, according to their rules of operation, make cash transfers to the poor, for human capital (Conditional Cash Transfer or CCT programs) or for inputs, training or investment in productive activities (Direct Cash Transfer or DCT programs). The budgets of most of these programs have been increasing, although they have not necessarily been characterized by changes or significant innovations.

It is therefore useful to look ahead and think about complementary measures or the redesign of poverty-reduction programs. Among complementary strategies, this study suggests considering inclusion of the poor in the financial system through savings, because of its importance in facilitating the accumulation of human and productive assets, and because

* Exchange rate, July 2010: 12.8 pesos to the dollar.

The complete document is available at the Capital Project: <www.proyectocapital.org>.



se it is a way of evening out consumption in the face of internal economic shocks and the growing instability of the global economy.

Financial inclusion in Mexico

Heimann *et ál.* (2009) state that financial inclusion is

“universal and continuous access by people to diversified, appropriate and formal financial services, as well as the possibility of use of these services in accordance with the users’ needs, to contribute to their development and well-being.”

In Mexico, as of 2006, there were 13.219 financial service counters or branches that captured deposits, as well as 1.522 TELECOMM service points.

The greatest bottleneck in Mexico becomes evident when we compare the number of branches per inhabitants in the various regions of the country. In Chiapas, Guerrero and Oaxaca, states with high poverty levels, there is an average of one bank branch per 20.000 inhabitants, while the national average is one per 10.000 inhabitants.

In 2006, only 36 percent of municipalities had banking intermediaries, and in nearly all cases they were localities with more than 50.000 inhabitants. These figures were the same in 2009. More than 60 percent of the population lives in those municipalities, and financial authorities estimated that in 2009, 50 percent of Mexicans – the vast majority of the highly vulnerable population – had no access to any banking service.

Little information is available about the use of formal financial services, such as the number of active clients, but the perception is even more discouraging, because the pro-

ducts they offer have not been adapted to the needs and financial capacity of the poorest Mexicans. There are few savings products linked to asset generation; most non-banking intermediaries are still unregulated, and even in those that are regulated, small savers’ assets remain at risk because of the delay in setting up protection funds; the social capital that financial cooperatives require of members is high and does not earn interest; commercial banks charge high commissions; customers lack reliable information about terms of services; and staff members’ attitudes toward this population are still often discriminatory. The situation is no better on the credit side, which is also characterized by the high active interest rates charged by microfinance institutions and banks in Mexico,

Given this lack of access, the government has expressed growing interest in the issue of financial inclusion in recent years, but there is still a lack of effective, non-partisan public policy debate about the role of the financial system in the country’s development, which requires a comprehensive approach to matters ranging from the legal and regulatory framework to financial products accessible to the general public.

CHANNELS FOR REACHING THE POOR

1) National Savings and Financial Services Bank (*Banco del Ahorro Nacional y Servicios Financieros*, BANSEFI)

With approval of the Grassroots Savings and Loan Law (*Ley de Ahorro y Crédito Popular*, LACP) in 2001, BANSEFI (formerly the National Savings Trust, or *Patronato del Ahorro Nacional*) was created to encourage savings through bank branches and to reinforce savings and loan and microfinance institutions and help



them come into compliance with the law. In 2003, BANSEFI created with those institutions The People's Network (*L@ Red de la Gente*) to expand the range of financial services at lower cost, reach users of those services quickly and efficiently, and offer financial services in remote areas of the country. More recently, Bansefi developed its financial education program¹. Through BANSEFI branches and some intermediaries of *L@Red de la Gente*, government cash transfers to the poor are currently distributed by deposit to bank accounts as well as directly. BANSEFI's Opportunities (*Oportunidades*) program also delivers the transfers from Youth with Opportunities (*Jóvenes con Oportunidades*), Senior Citizens (*Adultos Mayores*), Procampo, Farm Workers (*Jornaleros Agrícolas*), Productive Options (*Opciones Productivas*), the Corn and Bean Program (*Programa Maíz y Frijol, PROMAF*), the Farm Women Program (*Programa de la Mujer en el Sector Agrario, PROMUSAG*) and PAL.

2) Niche banks and correspondent banks

At the end of the last decade, the legal framework for grassroots financial intermediation underwent changes stemming from a complicated system of laws and structures with greater risk and uncertainty in the non-banking sector. At almost the same time, however, the financial authority promoted reforms to encourage greater expansion in the banking sector. In 2008 and 2009, two important initiatives were approved that could represent significant potential for expanding the coverage of financial services, especially savings, nationwide.

1. BANSEFI and Freedom from Hunger and Microfinance Opportunities developed financial education materials for low-income users. A total of 52,000 people have participated in the financial education workshops.

The first initiative was the creation of niche banks, while the second was authorization of correspondent banks. Most of these new banking concepts were still in the authorization process when this study was completed. In the case of correspondent banks, one example that stands out is that of DICONSA stores as correspondents of BANSEFI, serving an extremely poor and highly marginalized population. Because the reforms are recent, it is difficult to determine the direction, quality and way in which they will expand those services. Nevertheless, they raise the possibility of greater competition in the financial sector and of offering banking services in places that were formerly unserved, including marginalized rural areas.

3) Programs that stimulate savings-driven financial penetration: PATMIR and FONAES

Two major federal programs that promote savings-driven financial penetration in marginalized areas have been identified, besides Bansefi in its role as a development banking institution. They are the Technical Assistance for Rural Microfinance Program (*Programa de Asistencia Técnica al Microfinanciamiento Rural, PATMIR*)² and the National Solidarity Enterprise Fund (*Fondo Nacional de Empresas Solidarias, FONAES*).

In 2010, PATMIR's guidelines called for it to

"maximize the potential for sustainable expansion of select, proactive financial intermediaries with regulation in marginalized rural areas throughout the country. The Project focuses on expanding and deepening financial intermediaries' coverage among the rural population"³.

2. PATMIR was incorporated into BANSEFI in the last quarter of 2010, and is now a component of the bank. PATMIR goals described here could be modified with that change.

3. PATMIR Authorized Operating Guidelines (*Lineamientos Operativos Autorizados del PATMIR*), p.4.

The target population are the following:

“Inhabitants of rural communities located in districts with medium, high and very high rates of marginalization, in communities of fewer than 15.000 inhabitants; branches located in larger communities may be able to participate if they serve a population and communities of fewer than 15.000 inhabitants.”

PATMIR’s goal for 2012 is to work with 120 financial intermediaries that have 400 service points and serve 405.000 new users or members.

Fonaes’ goal is to contribute to the creation of employment among low-income entrepreneurs through the development and consolidation of productive projects. Its activities include support for social banking⁴. Its support includes Social Banking Promoters (Promotores de Banca Social), for hiring personnel for Solidarity Savings and Loans (*Cajas Solidarias*, CS) to encourage the opening of new branches in remote areas, and the capitalization of *Cajas Solidarias*. The program serves the country’s 31 federated entities and the Federal District. There were 445 CS as of December 2009, with a presence in 208 highly marginalized micro-regions, serving 1.1 million members.

CASH-TRANSFER PROGRAMS FOR THE POOR IN MEXICO

After identifying the steps taken to increase poor people’s access to financial services, it is necessary to review cash transfer programs for the poor and how the funds are currently delivered to the beneficiaries. The cash transfer programs analyzed can be divided into three groups:

4. Microfinance institutions are not included because they are served by other SE programs, the National Program for Microenterprise Financing (*Programa Nacional para el Financiamiento al Microempresario*, PRONAFIM).

- i) Conditional cash transfer (CCT) programs, which deliver funds at certain intervals and are designed to build human capital. The beneficiary’s receipt of these funds is conditioned on requirements imposed by the program in the areas of health care, education and/or nutrition for the household or the beneficiary. This study assumes that in these programs, access to and use of savings services would allow beneficiary households to plan better, especially during the two months between transfers, and accumulate amounts that could supplement or facilitate the acquisition of other assets not necessarily provided by the program, such as housing or productive assets.
- ii) Direct cash transfer (DCT) programs for productive projects. These transfers are not conditioned on human development, but must be used for the agreed-upon productive investment. The study assumes that financial inclusion is essential for the beneficiaries of DCT programs, because this investment – which usually consists of a single initial payment – is unlikely to have an impact on productive development and employment if the beneficiaries do not have ongoing access to financial services.
- iii) Two programs transfer resources to the poor to reinforce the habit of saving and the use of financial services through monetary incentives for savings deposits. One is *Premio Ahorro* (“Rewarding Savings”), a public program that is part of PAFOSACP and managed by BANSEFI. The other is *Apoyo Semilla* (“Seed Support”), a non-governmental program operated



by the *Caja Popular de Ahorros Yanga* in Veracruz⁵. In both cases, the participants may or may not be beneficiaries of CCT or DCT programs.

The study reviewed 12 federal DCT programs and three CCT programs. There are more such programs at the local level, but they generally lack transparency. In 2010, the DCT and CCT programs reviewed had a combined budget of 90.26 billion pesos, and initially benefited more than 10 million households. The largest number of beneficiaries participated in Procampo and Oportunidades, which serve approximately 80 percent of the beneficiaries of the programs reviewed.

There is no coordination among the 15 programs identified, although all seek to transfer cash resources to the poor. As a result, there are no synergies between CCT and DCT programs, which would be an extremely useful complementary poverty-reduction strategy. Moreover, in most of the programs, the beneficiaries are not linked with financial activity – in terms of inclusion – even though most of the programs allow the transfers to be made to an account in a financial institution. Of the 15 programs identified, 13 do this.

Most of the programs reviewed that use the financial system to deliver resources have the advantage, in terms of a possible financial inclusion scheme, of working with individualized accounts. This review indicates the potential for augmenting or redesigning some of these programs with savings-driven financial inclusion, particularly because most already

use the financial system for distribution. That potential is reinforced by recent regulatory changes for correspondent banks, as well as by programs that encourage the expansion of formal grassroots financial services in marginalized rural areas.

An initial step could involve studying models for financial inclusion through savings incentives in programs in which the poor population is appropriately defined or targeted, or those that use savings-based capitalization schemes. This review, however, does not seek to present the mentioned programs as definitive candidates for savings-driven financial inclusion schemes. That would require studying each one to assess relevance, targeting, obstacles, risks, advantages, etc.

Finally, the review identified two savings-stimulus programs that seek to develop the habit of savings and foster financial inclusion for low-income people: the Premio Ahorro and Apoyo Semilla programs.

The former targets adults who have or who open passbook savings accounts as BANSEFI customers. Participants are not subjected to a prior socio-economic study and the savings are not earmarked for a specific purpose. By June 2010, the program had nearly 70,000 participants. It is important to note that around 90 percent were already BANSEFI customers, either traditional customers or beneficiaries of *Oportunidades*. The latter do not necessarily use their savings accounts. For that reason, the program does not open the beneficiary's account. To continue in the savings plan, the participant must deposit 200 pesos each quarter (maximum four quarters). If the saver continues in the savings program the next quarter, without making withdrawals, he or she receives a lar-

5. The Caja de Ahorro Popular Yanga receives support from Patmir for expansion of financial services in marginalized areas; the consulting firm is Woccu, which also promoted *Apoyo Semilla*, a matched savings program.

Table 1
Direct Cash Transfers: Productive Projects

	Program name	Number of beneficiaries	Delivery method	Individual account
1	Productive Organization for Indigenous Women Program (<i>Programa Organización Productiva para Mujeres Indígenas, POPMI</i>)	20.865	Implementing agency delivers resources to beneficiary groups.	NO
2	Program of Coordination for Assistance to Indigenous Production (<i>Programa de Coordinación para el Apoyo a la Producción Indígena, PROCAPI</i>)	N/O	Bank account in name of implementing agency.	NO
3	Acquisition of Productive Assets Program (<i>Programa para la Adquisición de Activos Productivos</i>)	1.857	Bank account in beneficiary's name.	YES
4	Sustainable Use of Natural Resources for Primary Production Program (<i>Programa de Uso Sustentable de Recursos Naturales para la Producción Primaria</i>)	N/O	Bank account in beneficiary's name.	YES
5	PROCAMPO	2.812.632	Check, bank account, payment order, PROCAMPO electronic card in beneficiary's name.	YES
6	National Support Fund for Enterprises in Solidarity (<i>Fondo Nacional de Apoyos para Empresas en Solidaridad, FONAES</i>)	N/O	The ECA Scheme component involves savings accounts in social banking institutions.	YES
7	Support Fund for Productive Projects (<i>Fondo de Apoyo para Proyectos Productivos, FAPPA</i>)	N/O	Bank checking account in beneficiary's name.	YES
8	Rural Youth Entrepreneur and Land Fund (<i>Joven Emprendedor Rural y Fondo de Tierras</i>)	835	Financial institution.	YES
9	Farm Women Program (<i>Programa de la Mujer en el Sector Agrario, PROMUSAG</i>)	20.000	Bank checking account in name of legally established group, with signature of group's president, secretary or treasurer.	NO
10	Productive Options (<i>Opciones Productivas</i>)	9.283	Deposit made to bank account in name of beneficiary (individual or organization).	YES
11	3 x 1	425	Accounts shared between implementing municipalities and representatives of migrants.	NO
12	PRO-ARBOL	N/O	Bank account in name of beneficiary or organization.	YES

Source: Own elaboration.



Table 2
Conditional Cash Transfers: Human Capital

	Program name	Number of beneficiaries	Means of delivery	Individual account
1	PAL	802.875	Through payment-handling institutions using security labels, debit or prepaid cards, or deposit to savings accounts.	YES
2	Opportunities (<i>Oportunidades</i>)	5.059.107	Through payment-handling institutions, directly in cash or deposited in accounts.	YES
2.a.	<i>Youth with Opportunities (Jóvenes con Oportunidades*)</i>	(88.978)	Savings account in BANSEFI	YES
3	70 and over (70yMás)	2.026.977	Through payment-handling institutions, directly in cash.	YES

* It is a subprogram within *Oportunidades* which awards points to students who finish high school.
Source: Own elaboration.

ger incentive for each period (see Table 3). The incentives are scaled: 75 pesos the first quarter, 100 pesos the second quarter, 125 pesos the third quarter, and 200 pesos the fourth quarter. In other words, the program provides a maximum of 500 pesos per client in a year. A person who does not withdraw the money during three quarters and continues with the established savings plan will have savings of 1.300 pesos at the end of the year. Because of the way the program is designed, it is not possible to monitor its effects on savings habits, because the Premio Ahorro program ends at the end of a pre-established time frame.

Table 3
Characteristics of the *Premio Ahorro* Program (in pesos)

Period	Customer savings	Provided by program	Savings balance
First quarter	200	75	275
Second quarter	200	100	575
Third quarter	200	125	900
Fourth quarter	200	200	1.300
In 12 months	800	500	1.300

Source: Own elaboration.

The participant signs a letter of commitment pledging to attend financial education talks. In practice, however, the talks are not a condition for participating in the program.

The second program, *Apoyo Semilla*, is operated by the *Caja Popular de Ahorros Yanga*. It is a matched savings program⁶ supported by Woccu, which consists of cash incentives for saving for a specific purpose, to encourage the habit of saving among households that are even poorer than those of the Caja's members, and which are using the formal financial system for the first time. *Apoyo Semilla* operates in five of the Caja's 10 branches. The program targets only residents of areas classified as highly and very highly marginalized.

The *Apoyo Semilla* program provides a cash incentive for saving for a six-month period; deposits are made monthly, and one condition is that the participant not withdraw the savings. To participate, it is necessary to fill out a short survey with socio-economic data showing that the person qualifies for the program. Once the person is accepted, he or she must choose one of the following reasons for saving: education, health, housing, or investment in a business or economic activity.

To receive matching funds, participants must save 200 pesos a month, or 1.200 in the six-month period. At the end of the period, the

6. See: <www.matchesavings.org>.

program contributes 900 pesos (see Table 4). Of a total of 2,100 pesos, 300 cover the equity that allows the person to become a member of the Caja (that amount is refunded if the person decides to leave the cooperative) and take advantage of its other services (such as loans) and benefits (scholarships). The remaining accumulated balance is delivered to the saver in kind, depending on the savings goal. For example, it might be returned to the saver in the form of construction materials, medicines, school uniforms, grain, etc. APOYO SEMILLA has had a total of 260 participants. The program does not include a financial education component. In mid-2010, the impact of the program on the participants' savings habits was evaluated, with encouraging results, although they had not yet been published at the time this study was completed.

Table 4
Characteristics of the *Caja Popular de Ahorros Yanga's Apoyo Semilla* Program

Period	Stage		
	Monthly savings	Matching funds	Balance (savings plus match)
First month	200		200
Second month	200		400
Third month	200		600
Fourth month	200		800
Fifth month	200		1,000
Sixth month	200	900	2,100
Seventh month: Delivery of product in kind			

Source: Own elaboration.

CONCLUSIONS AND RECOMMENDATIONS

This paper seeks to add a savings-based approach to the public policy debate about financial inclusion in Mexico, drawing on the experience of the Capital Project. This strategy seeks to combine financial inclusion with savings incentives and conditional or direct cash

transfer programs for the poor. The goal is to create synergies that benefit poor households with access to and use of financial services, so they can better plan the use of their cash resources, while contributing to the effectiveness of social programs.

The study concludes that Mexico has significant potential for such programs. In 2010 alone, the 15 programs identified here that make cash transfers to the poor had combined budgets exceeding 90 billion pesos (approximately US\$ 6.9 billion)⁷ and made 11 million assistance transactions, representing a significant number of direct beneficiaries⁸. The average cash transfer amount received annually by beneficiary families represents a significant proportion of their income, and they therefore deserve to have financial tools that will enable them to make better decisions between transfers and take maximum advantage of the opportunity to plan their savings and build assets, human, physical and productive.

Of the 15 programs identified in the paper, this study proposes exploring the possibility of linking the following with savings-driven financial inclusion schemes: POPMI, PROMUSAG, *Oportunidades* and *Jóvenes con Oportunidades*.

Most of the programs reviewed channel a large portion of their transfers through the financial system, which could create an opportunity for the schemes proposed here, especially because this mechanism for distributing resources has not necessarily brought beneficiaries into the financial system. Purely in terms of physical access, this opportunity

7. Includes programs' operating expenditures.
8. The cash transfer is in the name of the beneficiary, not the rest of the family, although it is also considered a beneficiary.



is reinforced by recent initiatives, especially approval of correspondent banks, which could facilitate the supply of secure savings services in poor communities.

The document also proposes exploring possibilities with FONAES, through its *Cajas Solidarias*, or PAMTIR, both of which work with authorized

intermediaries in marginalized rural areas where beneficiaries of DCT and CCT programs live. The design and impact of BANSEFI's *Premio Ahorro* program should also be evaluated in terms of financial inclusion, to take advantage of its enormous potential. ●

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