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“SAVING, MENTAL ACCOUNTING, SAVING BY DEFAULT AND CONDITIONAL CASH TRANSFERS”: AN EVALUATION OF MEXICO’S OPORTUNIDADES PROGRAM*

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As part of the Todas Cuentan (Everyone Counts) initiative, a project financed by the International Development Research Centre (IDRC) of Canada and implemented by the University of Chile’s Economics Department, along with the Institute of Peruvian Studies (Instituto de Estudios Peruanos, IEP) and the Capital Foundation (Fundación Capital), and supported by the Ford Foundation and the IDRC of Canada, an evaluation of the Oportunidades conditional cash transfer program is being carried out by Carlos Chiapa (El Colegio de México). The evaluation is designed to contribute to discussion of the benefits of savings-linked conditional cash

transfer programs and to create evidence of the impact that certain savings schemes can have, through mental accounting and default mechanisms, on variables such as total savings and health expenditures.

SUMMARY

Although there is consensus that access to formal savings systems is beneficial for people, many poor people — including many beneficiaries of conditional cash transfer (CCT) programs — lack access to the formal financial system. Depositing transfers from these programs in savings accounts that recipients can use actively could give them access to the for-

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



mal system and have a positive impact on their welfare.

Some CCTs, including Mexico's Oportunidades (Opportunities) program, have begun depositing transfers directly in some beneficiaries' savings accounts, incorporating them into the financial system. Very little is known, however, about the effects of this combination of CCTs and formal savings. It is also necessary to identify mechanisms that enable beneficiaries to increase their ability to save and to protect against negative shocks.

This study is an effort to close the knowledge gap. A controlled random study will be used to obtain rigorous evidence about the effects of combining saving and CCTs. The study will analyze the effects that (i) mental accounting (i.e., proposing that beneficiaries save for a specific purpose, such as emergencies) and (ii) the possibility of saving by default for emergencies have on the beneficiaries' savings capacity, well-being and business activities.

The results will provide input for discussion of the virtues of savings-linked CCTs. This experiment will also provide evidence about the effects of mental accounting and automatic saving, which will be useful for designing public policies that help poor people accumulate more savings in the formal sector.

MOTIVATION AND RATIONALE

Various studies (Aghion and Bolton, 1997; Banerjee and Newman, 1993; Banerjee, 2004) have shown that having access to and power to use the financial system helps poor people move out of poverty. The poorest segments of the world's population, however, have little access to the formal financial system.

In general, in developing countries, attention has been paid to facilitating access to the financial system through microcredit. The poor however, also want and need savings and insurance.

Access to the financial system through savings accounts is safer for new customers and does not force them to take risks. The idea of offering formal savings accounts is therefore being promoted to facilitate the inclusion of the poor in the financial system. For this reason, several CCTs have modified their payment systems.

Oportunidades is one of the CCTs that deposits its transfers directly in savings accounts through the National Savings and Financial Services Bank (Banco del Ahorro Nacional y Servicios Financieros, Bansefi).

There are few studies of the impact of poor people having access to formal savings accounts. Using a heterogeneous sample of households in Nepal, Prina (2012) found significant effects on their asset accumulation and their investment in health and education. Using a sample of entrepreneurs in Kenya, Dupas and Robinson (2012) found positive effects on business investment and health. This study, however, will be the first to analyze the effect of having a savings account among poor households with a steady and secure source of income. This will also enable us to study the effects of savings mechanisms whose effectiveness has been demonstrated in developed countries, but which had not been implemented before in developing countries.

Earlier studies showed that CCTs can be used as an insurance tool (Chiapa 2012). They also allow part of the transfer to be invested in productive activities (Gertler, Martínez and Rubio-



Codina 2012). Nevertheless, it is difficult for the beneficiaries to move out of poverty (Campos-Vázquez, Chiapa, Huffman and Santillán, to be published). The beneficiaries of these programs therefore have different incentives for saving than other poor households. For example, they can make riskier investments that offer greater returns.

Finally, economic development literature has shown that poor people have such a need and willingness to save that even a simple metal box that allows them to “set aside” their money for future medical expenses can have a great impact on their households’ savings and health expenditures. The impact of mental accounting through a formal savings account set up specifically for emergencies could have an even greater impact. The study will shed light on this.

MAIN OBJECTIVE

To analyze the effects of depositing transfers from Oportunidades directly in beneficiaries’ savings accounts on the beneficiaries’ savings capacity, welfare and business activities, comparing control and treatment groups.

SPECIFIC OBJECTIVES

To identify the importance of mental accounting. To analyze whether mental accounting enables beneficiaries to save more.

To identify the importance of the savings mechanism on automatic saving for emergencies. To analyze whether a default saving mechanism for emergencies enables beneficiaries to save more than they would if they had no such mechanism.

QUESTIONS

What is the effect on our variables of interest (total saving and saving for emergencies, asset accumulation, education and health expenditures, financial education, use of the formal financial system, development/improvement of business activities, women’s negotiating power) of Oportunidades depositing its transfers directly in savings accounts that can be used actively, and of beneficiaries having a special sub-account for emergencies (mental accounting)?

What is the effect on our variables of interest of having a mechanism for automatically saving in a special sub-account for emergencies?

HYPOTHESES

- H1. The total savings level will be higher when it is suggested that beneficiaries save for emergencies. Saving for emergencies will be positive. For the remaining variables (asset accumulation, health and education expenditures, financial education level, use of the formal financial system, development of new or improvement of existing business activities, increasing women’s negotiating power), we expect effects equal to or greater than those found when transfers are received in a savings account.
- H2. With the mechanism of saving by default in a special sub-account for emergencies, the total savings level will be higher than without the mechanism. Saving for emergencies will be greater than with mental accounting. For the remaining variables of interest, we expect effects equal to or greater than those encountered when

the transfers are received in a savings account.

EMPIRICAL STRATEGY

A controlled random experiment will be carried out. Randomness will be at the level of locality. The sample of localities will be divided into three groups:

Control: beneficiaries can access their savings accounts with debit cards.

Treatment 1 (S+V): beneficiaries can access their savings accounts with debit cards. They also have a sub-account where they can voluntarily deposit money for emergencies.

Treatment 2 (S+D): beneficiaries can access their savings accounts with debit cards. In addition, 10 percent of each transfer is deposited automatically in a sub-account for emergencies.

CONTRIBUTION TO POLICY IMPLEMENTATION

This study will produce evidence about the effects of mental accounting and automatic saving or saving by default, which will provide input for the design of public policies that help poor people accumulate higher levels of savings in the formal sector.



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