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What does it mean to *manage money well*? Comparative analysis of JUNTOS users who have received Financial Education and those who have not*

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I. Introduction

To continue strengthening financial education initiatives, this study examines the way in which mothers in the JUNTOS program understand what it means to use money appropriately, observe how that changes with their participation in financial education programs, and identify commonalities and differences in indicators for good money management proposed by financial education programs.

Peru's conditional cash transfer (CCT) program, which is called Direct Support for the Poorest Peruvians (*Apoyo Directo a los Más Pobres*) and is known as JUNTOS, transfers cash incentives to families living in poverty, especially in rural areas, which include pregnant women, children or adolescents who are still in secondary school. The bi-monthly payment of US$ 72 is made through a savings account in the Banco de la Nación in the mother's name, partly because women are most aware of their households' needs, but also with the goal of increasing their negotiating power in the home (Francke and Cruzado, 2009[1]).

Just opening a savings account, however, does not guarantee that it will be used as a tool for control and management of money; financial education is necessary first, and one of its goals is to narrow the gap between the beneficiary households and the banking system (Maldonado *et al*., 2011[2]; Trivelli *et al*., 2011[3]). Financial education is understood as the process by which users increase their knowledge of financial products and concepts, developing the

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

1. <http://bit.ly/15cs3g9>.
2. <http://bit.ly/1gIFdX7>.
3. <Zhttp://bit.ly/16eEzlh>.

skills and confidence they need to understand financial risks and opportunities, know where to turn for assistance, and make effective decisions that help them improve their financial welfare (OECD, 2005[4]). From a practical standpoint, one of the main goals of financial education programs (FEPs) is to achieve what are considered to be efficient financial behaviors (Microfinance Opportunities, 2005). Although there are various indicators of appropriate financial behavior, a quick overview shows that FEPs tend to focus on certain key practices, such as budgeting, saving, overindebtedness and informed use of financial products.

Not everyone agrees, however, with what FEPs consider to be appropriate practices. Studies such as the one by Zullman and Collins (2010[5]), with a low-income population in Kenya, suggest that when income is unpredictable, good money-management practices could be different. The study indicates that are seeking additional sources of income, discipline in saving and optimization of spending are considered key good-management practices. "Generation of new income" consists of constantly seeking cash flow through the investment of savings and/or loans in business opportunities, so as to regulate the frequency of income for the household. "Disciplined saving" is related to the use of various strategies — both formal and informal — that make it possible to prepare for unplanned expenses and facilitate the accumulation of money. "Optimization of spending" refers to not spending on things that are considered unnecessary and avoiding impulse purchases.

With regard to learning, behaviors related to household money management can be influenced by both the context and by what the person has learned from others and now considers an acceptable practice — which will be called *good money-management concepts*. The use or avoidance of certain behaviors could therefore be mediated by factors related to the specific situation, as well as the person's reading of income received, expenses, and the dynamic of financial decisions in the household. In short, behavior seems to be guided by our representations of what certain ideal practices mean, in conjunction with the situation in which they occur (Bertrand, Mullaninhathan and Shafir, 2004).

II. Method

The Savings Promotion Program was implemented between January 2010 and March 2012, targeting families in the JUNTOS Program. The program is a FEP aimed mainly at the practice of financial savings, and consists of a series of in-person training sessions held in 18 districts in five departments of Peru[6]. Altogether, 17,015[7] people, mainly women, were trained.

This study focused on districts in the departments of Puno and La Libertad where the Savings Promotion Program had been implemented and where those involved had not participated in any type of FEP. To identify the concepts of good money management and how they change through participation in a FEP, 32 interviews were carried out with JUNTOS users who participated (n=16) and who did not participate (n=16) in the Savings Promotion Program in the two departments. The questions were designed to identify income and spending dynamics in the household, as well as characteristics that the women considered key for good money management. Based on those characteristics, the study sought to identify similarities with and differences from indicators of good money management proposed by the FEPs and to see if the concepts varied depending on whether the person participated in a financial education program.

4. <http://bit.ly/1fiughh>.
5. <http://bit.ly/16eEzlh>.
6. Apurímac, Ayacucho, Cusco, La Libertad y Puno.
7. <http://alfabetizacionfinanciera.blogspot.com>.

To choose the participating districts, the districts participating in the Savings Promotion Program in the two departments were first identified. Districts receiving the cash transfer through a banking agency were chosen, as that facilitates access for the women and makes it possible to reach women who come from various communities in the district. Finally, criteria related to access between districts were considered. The selected districts were Paucarcolla and Atuncolla in the department of Puno, and Mache and Agallpampa in the department of La Libertad.

III. Principal results

The following is an overview of the results, including a brief discussion of findings from other studies with low-income populations.

Concepts of good money management

Among the women who had received financial education and those who had not, the following key "good money-management practices" were identified: **saving** (mainly in animals and in the bank), **investments and not wasting money**.

In general, **saving** is seen as a means of educating children and protecting the family in case of accident or illness, a definition similar to that encountered in other studies of rural families, which identify the same reasons for saving (Alvarado and Galarza, 2005; Trivelli *et al*., 2011, Trivelli and Yancari, 2008[8]). According to the participants in this study, the ideal forms of saving are through the bank and through animals; **the two are considered complementary strategies, apparently because they have different purposes**. While both forms of saving involve "*stashing away*" money, the perceived benefits and end use of each type differ. While saving is a bank is basically a way of safeguarding money (from loss, theft or unplanned expenses), saving in animals not only protects money against unnecessary spending, but also "puts the money to work," increasing the amount initially saved. Saving in the bank therefore tends to be compared against other strategies that do increase the amount of money; that finding was also reported in the Corridor Project, in which users said safety was one of the main benefits of financial saving, but also indicated that low profitability was one of its main disadvantages (Trivelli and Yancari, 2008).

> *[Saving at home] works for me, but you don't have the same security as when you bring it to a bank. But not every bank, because we save here, but I don't think they give us anything. Your money doesn't work; it's just there. They don't give you anything, so it doesn't [work out well].*
>
> (Mother, age 27, with domestic partner, Paucarcolla)

Another strategy considered a good practice is **investment**, putting the money somewhere where it can grow and be reinvested, to ensure a more stable household cash flow. That finding is consistent with those of Zullman and Collins (2010), who found that generating income through investment in business opportunities is considered a key good money-management practice among people with low, irregular incomes.

> *[People who manage money well] plant more; they plant a lot, so they harvest a little more with their money. We see them plant a lot and harvest a lot. So they earn more. […] And it's a cycle –, because they earned more, they plant more. So they produce more and have more.*
>
> (Mother, age 46, with domestic partner, Agallpampa)

Finally, **not wasting money** is also characterized as a good practice. That basically consists of limiting spending that is considered unnecessary, mainly on alcohol and clothing, because it does not generate profits and diverts money from the household and

8. <http://archivo.iep.pe/textos/DDT/ddt153.pdf>.

children. This is also considered an ideal practice among low-income families, underscoring the discipline and sacrifice dedicated to meeting the family's needs (Zullman and Collins, 2010). Along this line, considering the "excessive" purchase of clothing a waste of money indicates the way in which these households focus on other needs in order to engage in what they consider more economically favorable practices, such as investments (Finn, Zorita and Coulton, 1993).

In contrast, the participants identified **wasting money** and **not making money grow** as poor money-management practices.

Total waste is mainly associated with the purchase of alcohol, as that is an impulse purchase and does not prioritize other family needs, particularly those of children. The underlying factor that makes alcohol consumption bad, therefore, is that the household's money is not spent on the children. **Not making money grow** is associated with both alcohol consumption and the excessive purchase of clothing, as well as with simply letting money dribble away little by little, even if it is spent on necessary, everyday expenses. The negative part of that practice is letting the money sleep, without ensuring that income will continue to flow, as it would with investments. Again, this underscores the importance that these families place on making money grow, seeking to cover the rest of their households' expenses through small businesses.

> *[Leaving money in the house] isn't so good, because the money is just sleeping there; if you put five hundred soles there, then just five hundred soles remain. You don't gain or lose anything.*
>
> (Mother, age 27, with domestic partner, Paucarcolla)

Differences in concepts of good money management between women who have received financial education and those who have not

Changes in concepts of good money management were then identified, depending on whether the woman had participated in the Savings Promotion FEP. The differences that begin to appear are a strengthening of the idea of a business for money *growth* (**making investments**) and the adoption of **saving in the bank** as another savings strategy.

The women who participated in the FEP were more emphatic in mentioning **making investments** as a good practice. Women who participated also tend to report **not wasting money** with greater conviction, possibly reflecting still-conservative financial management. Having participated in a FEP, therefore, could be encouraging users to develop more ambitious expectations about their money, even when topics related to investment are not a central part of the program's curriculum. These results are consistent with the findings of Trivelli and Yancari (2008) among women savers in Puno and Cusco (Corridor Project), where the savers, after years of participation in a FEP aimed at increasing their knowledge of their savings accounts, began to explore and use loans from other banking agencies. Similar results have occurred in Colombia with the Women Savers in Action (*Mujeres Ahorradoras en Acción*) FEP, which sparked significant interest in access to loans for productive purposes among the participants, who were also users of the Families in Action (Familias en Acción) conditional cash transfer program (Maldonado *et al*., 2011). Although further exploration is needed of the way in which this idea begins to emerge among the women, this and other studies appear to indicate that access to savings incentive programs also tangentially encourages interest in developing or enhancing productive activities through loans or credit. This is an element to keep in mind when designing future savings promotion strategies, which could include a final module devoted to education about loans and opening businesses, since it appears that demand arises immediately after a FEP.

Adoption of **saving in the bank** as another savings strategy indicates the value that JUNTOS users place on the use of formal saving once they are informed about the benefits and conditions of their accounts. Informal saving also remains common, however, and is practiced in parallel with saving in the bank, perhaps because there are different expectations of the two forms. Along this line, low-income households take advantage of the various strategies at their disposal, using formal and informal sources simultaneously to manage their money (Cohen and Sebstad, 2003).

Differences between JUNTOS users' concepts of good money management and indicators proposed by FEPs

Although the various financial education programs have different indicators for gauging sound financial practices, overall they share some key behaviors, such as budgeting, saving in general, appropriate debt management, and informed use of financial products. Concepts found in this study, however, differ from those indicators in two areas: in considering practices aimed at **income generation** as a key indicator, and in having **different expectations about bank savings.**

The mothers interviewed speak of **investing and generating more income.** This partly responds to the irregular nature of their own income, which tends to be periodic and often inadequate, forcing them to supplement it with other strategies to meet their families' needs. These results are similar to those found by Zullman and Collins (2010), whose subjects had the same concept of good money management.

But although the women interviewed mention bank saving as a good practice, coinciding with the FEP indicators, their expectations about that form of saving are different. The main benefit perceived from saving in the bank is the safety of the money from theft, loss or unplanned expenses, so it can later be used for each year's important and cyclical purchases (e.g., beginning of the school year) or in case of accidents. **This saving tends not to be associated with the possibility of accumulating more money over time**, because it is difficult for low-income households involved in agriculture to allow themselves savings that accumulate large amounts of money over time, as they always have major cyclical expenses (Deaton, 1990). The idea of saving as a way to foster accumulation is therefore at odds with knowing that the savings will be spent soon, and in large quantity, without being able to accumulate large amounts of money in accounts. This may be the reason why bank savings tend to be contrasted with other practices that not only allow the money to be saved, but which also favor the growth of the initial amount (e.g., saving in animals or investments).

IV. Conclusions and recommendations

The following are conclusions and recommendations stemming from this study, which are aimed at continuing to enhance FEPs, either through the inclusion of additional topics in their curricula or with additional indicators of good money management that could become part of their evaluation strategy.

- Saving, investing and not wasting are good money-management practices. In contrast, completely wasting money and not making it grow, are poor money-management practices. The emphasis on generating additional income reveals the importance these families place on the need to make the initial amounts of money grow, as they seek to cover all their expenses with small investments.

- Saving in the bank and saving through animals are not mutually exclusive when considered as good practices. This is probably because they serve different purposes; while one allows people to keep their money safe, the other allows the initial amount of savings to grow. From the supply side, and to make bank saving more attractive, interest rates could be offered that are more attractive to users and that lead them to want to save — and earn — through the bank. As the interviewees commented, however, money saved in animals remains inaccessible for at least a couple of months before it "grows" and can be used again; this indicates that it may also be possible to consider the design of products that keep the money unavailable for a period of time — determined by either the user or the agency — and allow it to accumulate interest and make the savings grow.

- Given the concept of not wasting money as a good management practice, future financial education strategies could include modules aimed at reducing expenses and optimizing househ old funds. Other studies with rural populations have found that such topics are easier to put into practice than others (Bobby *et al*., 2009), because they appeal to the user's discipline rather than to other factors that are more difficult to control, such as shocks.

- When the rural/vulnerable population participating in CCT programs receives FEP training, bank saving is included as a good practice and the idea of businesses is reinforced — indirectly, even if it is not promoted through the FEP curriculum. This reinforcement suggests the development of more ambitious expectations regarding money management. Future financial education strategies could incorporate final modules aimed at development of small businesses or other productive strategies.

- Unlike the indicators of good money management usually proposed by FEPs, the concepts found here consider investing and generating more income to be a good practice. Although saving is also considered, it appears not to be seen as a means of accumulation. This could indicate a need for a change in financial education curricula for populations with similar characteristics, to present the content in a way that is consistent with people's expectations of what good money management means. Saving could be proposed as a way of financing future entrepreneurial activities, rather than merely accumulating an amount of money for emergencies. Thought could also be given to including other indicators of what good management means for FEPs, so that those behaviors also become part of the evaluation strategy for such programs.

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