PROYECTOCAPITAL

inshort

Number 1 / January 2009

Access by the poor to basic financial instruments for management of risks and investments*

As an initiative of the Ford Foundation, this concept paper[1] offers a proposal for public intervention — tentatively called "C4 — *The Capital Project" — to facilitate and complement existing public conditional cash transfer (CCT) programs, expanding the prospects for their scope and sustainable impact as well as attracting other civil society stakeholders*, cooperation sources and private enterprise with corporate social responsibility involved in combating poverty. It is directed at decision makers responsible for national policies in the areas of social development and protection, health and nutrition, poverty, grassroots productive development, and civic and financial inclusion for highly vulnerable rural and urban families.

Main proposal. Based on encouraging pilot experiences and academic research in various countries, this public intervention proposal offers concrete possibilities for connecting, combining and adjusting *appropriate CCT policies (existing or possible)* with policies that *encourage* popular savings and inclusion of poor people in the banking system (opening of personal savings accounts), *asset building*[2] and access to *know-how* that is essential for their enterprises and other initiatives, fostering and *facilitation of their productive investment*, and *risk reduction* (preservation of their assets, reduction of vulnerability to adverse circumstances, with micro-insurance).

1. Ford Foundation, Mr. Jean Paul Lacoste (j.lacoste@fordfound.org), Andean Region and Southern Cone Office, Development Finance and Economic Security Department, Santiago, Chile. Paper prepared by Edge Finance S.A. (Mr. Yves Moury, ym@edgefinance.net, popular finance consultant and poverty reduction policy).

* The complete document is available in The Capital Project web page: www.proyectocapital.org

2. Human assets (health, education, relationships); social assets (culture, social capital); financial assets (savings, insurance, remittances received, natural assets, physical assets such as housing, land and production tools); and public goods.

Poverty. The dynamic of poverty in Latin America remains troublesome. While the proportion of people living in poverty in Latin America and the Caribbean has decreased, the absolute number of poor people is increasing. The population living on less than one dollar a day rose from 36 million in 1981 to 47 million in 2002; the number of poor people living on less than two dollars a day was more than 99 million in 1981 and rose to 123 million in 2002[3]. In Latin America and the Caribbean there are also 11.5 million "ultra poor" people (living on less than US$0.50 per day), almost all of them in rural areas, representing 7 percent of the world's total[4].

Subsidies, capital formation, poverty *alleviation* vs. poverty *reduction*. The fight against poverty requires different types of outside assistance for the poor, based on explicit public subsidies (competitive funds for capitalization), complementary donations/matching grants, public education, infrastructure), without which they cannot — even with steady economic growth — get out of poverty (a trap of low assets and capacities[5] with high family, personal and professional risks). Capital formation and asset accumulation by the poor, and the subsequent productive use of these resources as a path toward social and economic stability, are a measure of people's long-range capacities and provide a possible exit route for social protection policies (graduation of beneficiaries). Social policies based on people's own assets (stock) are a key complement to the goals of income-based policies (flows, such as food assistance and simple cash transfers, whether conditional or non-conditional).

CCTs, asset building and protection, productive investment by the poor. Social protection for those at greatest risk, through conditional cash transfers (CCTs), could more explicitly and deliberately include the key issues of (i) *capital formation and building of other assets*[6] for the poor; (ii) *fostering the productive use and investment of accumulated assets* as a route for exiting social protection networks; (iii) promotion of accessible tools for *reducing vulnerability (protecting poor people's assets against adversity*). Such *complementary* policy, time bound and based on explicit monetary incentives for the poor, would facilitate the beginning of processes that would have crucial effects in the long run.

Stabilization of the family, inclusion in banking and civic life, popular savings, reduction of vulnerability, graduation and economic inclusion. The proposal is to incorporate the following into social protection mechanisms offered by CCT programs (*stabilization* of families through food or financial assistance): (i) an instrument for encouraging formal savings (in regulated bank accounts called PCAs —

3. 2006 World Development Indicators.
4. The World's Most Deprived: Characteristics and Causes of Extreme Poverty and Hunger, IFPRI 2007.
5. The four Cs: Capital (productive, physical, financial), Capacities (training, education, information), Connections, Citizenship. See Amartya Sen, Nobel Prize in economics.
6. Particularly human assets (general and maternal-infant health, education, sex education and reproductive health education, training, relationships) and social assets (culture and traditional knowledge, social capital, community solidarity).

personal capitalization accounts[7]) by poor families, through incentives in the form of matching grants tied to savings efforts and automatically transferred to the accounts (*banking inclusion, capital formation*); (ii) a mechanism for promoting the use of micro-insurance subsidized contracts (*reduction of vulnerability*); (iii) a gradually established monetary incentive system (promoting connections with various public, private and civil society development initiatives) encouraging the productive use of savings and accumulated transfers (*graduation and economic inclusion*, matching grants-based investments to promote the poor's productive initiatives[8]).

Personal Capitalization Accounts. The mechanism for encouraging PCAs and cash savings by the poor is, *basically, a different form of conditional cash transfer, incorporating a mechanism for the beneficiaries' socio-economic graduation and a CCT exit route* (capital formation thanks to gradual capitalization of the beneficiaries with their own resources — savings — and ex post matching grants — explicit subsidies deposited directly in the PCAs as a reward for savings efforts), and their subsequent productive use. The use of individual bank accounts would also facilitate and automate existing conditional transfers, moving from a system of cash transfers (payment by withdrawal/check at a bank counter) to *monetary* transfers (payment by bank transfer for direct deposit to the PCA), reducing CCT operating costs and making the transactions more secure and better protected from family pressures.

The PCA is a time-bound *subsidy-based savings system* that encourages and rewards poor and very poor beneficiaries for: (i) opening individual bank savings accounts (with a *matching grant* as an ex post reward for opening the account); (ii) strengthening and organizing their regular savings (through a *direct and explicit individual subsidy* applied to the accounts, rewarding savings effort); and (iii) ultimately being able to invest in their own assets, based on their accumulated savings (home improvements; education; functional, job or productive training; maternal-infant and reproductive health; business; various initiatives; technical assistance and expertise).

The matching grants and subsidies are to be considered as a *public investment in education, a learning process* (opening an account and learning how and why to use it), complemented *by direct*, *explicit capitalization* (monetary incentives transferred to the individual savings accounts), fostering the

7. Personal Capitalization Accounts (PCAs) are individual bank accounts for poor people without previous banking experience, especially women, which would allow them to be included in the formal financial market. They would allow them to better manage their finances and accumulated monetary assets, decreasing their vulnerability and increasing their economic well-being (transformation of financial capital into other assets).

8. This would increase the possibilities for poor families, particularly women and youth, to gain access to a series of factors — financial resources, technical assistance, training, internships, associations, knowledge and information — that are essential for personal development (awareness raising, empowerment) and the development of markets, businesses and other enterprises of their choosing, defined by them according to their interests. This would be implemented through direct transfer of financial resources to the poor, at the individual level, by bank transfers to their PCAs, enabling them to obtain in the marketplace the services they consider necessary for developing their initiatives (direct transfers, without outside intermediation, using a demand-driven approach).

start of asset building and self-financed investments, as well as the stemming psychological changes (self-esteem).

PCAs from birth (for life). It is also important to mention the possibility of expanding a policy for encouraging subsidy-based savings accounts for beneficiaries from birth to adulthood (*children's savings accounts*), allowing gradual capitalization that would also help finance future school expenses and higher education, or a future productive investment. This would allow each poor child, once he or she reaches adulthood, to be financially involved in and have an interest in society, as well as providing a financial springboard for a better education, better employment, better housing and a better life.

Gradual autonomy and graduation of the poor, women's empowerment, an exit route from CCTs. The proposal offers strong advantages for both vulnerable families and the State, proven medium-range prospects for graduation of the poor to a more self-sufficient life, demonstrated empowerment of women and their role in the family and outside the home[9], and an exit route from CCTs (time-bound conditional cash transfers, once a development mechanism toward the beneficiaries' social and economic stability is gaining ground). Children's Savings Accounts would provide unprecedented possibilities for breaking the cycle of inter-generational transmission of poverty, with its associated costs.

Exchange of views with national authorities and civil society; design of proposals. The Ford Foundation would support interested governments in the design, financing and start-up of projects based on the principles briefly described above, adjusted to each country's situation. The Ford Foundation could co-finance initial workshops for beginning the design of contextualized interventions, as pilots or full-fledged programs.

November 2007

9. For a poor woman, merely having a personal savings account with growing capital, which is safe and protected from outside and family pressures, represents a significant change in her personal role and her role in the family, as well as the perception of her importance and self-sufficiency (self-esteem), and has an enormous impact on the control she has over her own life as a woman and a mother (sexuality and reproductive health).

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This publication is possible thanks to the support of the Ford Foundation.

ProyectoCapital
Movilizando el Ahorro Popular en América Latina y el Caribe
Una iniciativa de la Fundación Capital y el Instituto de Estudios Peruanos