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Savings Accounts to help better consumption*

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It is well known that savings accounts are a useful financial instrument. They allow for better management of liquidity and accumulation of assets; this reduces vulnerability by allowing the individual to save effectively and access those savings in times of need. In addition, in the case of conditional cash transfers, savings accounts could further improve the lives of the poorest by fostering better use of the cash transfer, helping to facilitate the end of cyclical poverty by insuring a higher, better and more stable level of consumption.

Some of the characteristics and benefits of monetary savings in financial systems are relevant to helping achieve the goals of conditional cash transfer (CCT) programs: better consumption, and more investment in human capital and productive assets. While there is growing consensus about the potential benefits of supporting actions that promote financial inclusion of the poor through savings accounts, some questions remain about the benefits of having and using a savings account as part of the CCT program strategy. Here we briefly discuss some ways in which having and using a savings account can contribute to the conditional cash transfer programs' objectives.

Savings to ensure better and more stable consumption.

Poor households can improve their consumption if they have instruments that enable them to distribute extraordinary or seasonal income over time and save the transfers received during those periods so they can use the money for future consumption. Poor people currently use informal mechanisms to achieve this dis-

* The complete document is available at The Capital Project web page: http://proyectocapital.org/index.php?fp_verpub=true&idpub=115

tribution of consumption over time. These mechanisms tend to be expensive, insecure and less effective. Purchasing assets that can be re-sold when necessary, acquiring animals, saving money in the home, lending money to friends and relatives, sending resources to relatives and asking them to keep them, participating in informal savings groups, etc., are mechanisms frequently used by poor people to manage extraordinary resources, but they tend to be very insecure and do not ensure that the value of the saved resources will be maintained.

Portfolios of the Poor[1] presented the results of several in-depth studies of the financial management tools utilized by the world's poor. The studies were carried out in three countries, first in Bangladesh and India, and later in South Africa. The method was to have the participants create a "financial diary" recording every minute detail of their financial lives, coupled with bi-monthly visits for a full year from the surveyors. In total, the team collected more than 250 complete diaries. This paper shows how the households that were interviewed, all of which were poor or very poor, use a broad range of financial services (formal and informal), such as individual and collective savings schemes, insurance and microinsurance, loans, etc., to manage the volatility of their limited income and promote better use of that income to meet their families' needs.

Poor families clearly place a high value on having instruments that enable them to keep their monetary resources liquid, so they can use them in the most timely, effective manner to meet their consumption needs. Not only do the poorest, most vulnerable families in Latin America have insufficient income or resources to meet their needs (monetary poverty), but their income also tends to be extremely variable, with a high degree of uncertainty.

Beneficiaries of CCT programs who seek to stabilize consumption can better achieve this goal if there are mechanisms that enable the poorest participants to manage their resources and expenses better over time. Many beneficiaries of CCT programs are farmers and farm workers in rural areas (subsistence farmers, family farmers, landless farm workers, farm laborers, etc.) and workers in the informal or microenterprise sector in urban areas (generally unpaid family workers, independent workers, microentrepreneurs linked to small-scale commerce, etc.). These groups face significant uncertainty in their income flow and must often deal with marked seasonality (especially in rural areas). In these cases, CCT programs offer an important cash supplement to these families' income, which is not always monetary. The programs are also ongoing (every month or every other month), enabling the families to stabilize and ensure a minimum level of consumption. The cash transfer, however, generally represents only part of the resources these families need for minimum consumption.

How do these poor households address situations in which there is a significant temporary income (such as harvest time), or when consumption requires a greater cash outlay (purchasing children's shoes at the beginning of the school year, for example)?

Evidence and the literature show that the poor have few instruments that enable them to take

1. Collins, D., Murdoch, J., Rutherford, S., & Ruthven, O. (2009). *Portfolios of the Poor: How the World's Poor live on $2 a Day*. Princeton University Press.

advantage of such positive situations, when they arise (Christmas season, a livestock fair that is a major sales venue, or harvest season), in a way that would facilitate better consumption. Because of a lack of mechanisms for maintaining steady consumption levels (evening out of consumption), when extraordinary expenses arise (including predictable ones, such as school expenses or the birth of a baby), consumption can be affected.

Formal financial instruments could help keep unanticipated financial shocks from affecting poor families' basic food necessities. They would allow the head of household to save what little goes unspent, so as to cover unanticipated expenses — purchase of shoes, school materials, heavy clothing for winter months, etc., — without reducing food consumption during that period. They would also prepare families to handle additional expenses without increasing their vulnerability or affecting their consumption during times when they face exceptional expenses.

"I have learned that my money is safe. Besides, it's easy. For example, if I need 500 nuevos soles for school expenses, but my cow is worth more than that, if I sell my cow, I might not spend the extra money wisely. Now I don't risk losing the money or spending it on a party or something. People think, if it's our money, why should we reinvest it? Why not just spend it? With the bank, however, you don't spend it, because you have to go there to make the withdrawal. You have to stand in line, and that takes time. So you get discouraged and think, Why am I going to take the money out if it's going to decrease my savings."

Carchi Muñapata Ccuyo
Corridor Project participant from the savings Club Madres
Age 33, married with three children.

Savings accounts are more effective financial tools than informal mechanisms in several ways. Savings accounts offer security and reliability, two factors that have been argued to be most important elements that can be introduced into the lives of the poor through formal financial inclusion.[2] They also protect the asset's value and may even increase it, depending on interest rates and inflation. These mechanisms are low cost (withdrawal and set-up fees) and easily accessible, but not to such an extent that the funds are readily available and hence more difficult to save.

Saving accounts can also provide preliminary education in financial tools, helping unfamiliar populations become accustomed to banking transactions. They are a low-risk introduction into formal financial inclusion that could lead to future access to other formal financial tools, such as credit and insurance. Savings accounts also allow for divisibility — the saver can use increments of the asset's total value, rather than assets held in-kind[3] (which is common in poorer communities), which would require that the asset be sold for its total value in order to utilize smaller monetary increments. These factors allow more and better consumption at times when extra income is generated or a cash transfer is received.

1. Collins, D., Murdoch, J., Rutherford, S., & Ruthven, O. (2009). Portfolios of the Poor: How the World's Poor live on $2 a Day. Princeton University Press.
2. The use of in-kind savings, such as the purchase of livestock to be sold in the event of an income shock.

"I have learned to save and to work with the bank. I also lost my fear, thanks to meetings, training and walk-throughs in the bank offices. I was always up to date with my transactions. I withdrew money for school, to buy school supplies for my children. My second withdrawal was for financing, and I bought a cow and calf for milk production. That gave me an income of 6.80 nuevos soles from the sale of cheese, and I deposited my earnings in the bank every month. I was eventually elected leader of our organization."

Gladys Victoria Fuentes Mamani
Member of the savings group Mujeres Ahorristas Apazsura

Savings accounts also complement CCT programs and their goal of higher consumption by enabling recipients to save the money they receive, instead of spending it immediately. If the CCT were deposited directly into the recipient's savings account, there would be no need to spend the cash in hand, and recipients could therefore withdraw smaller amounts to meet their needs until the next payment. This could be quite important in cases where markets are organized around the known pay-day of the CCT programs. These markets often do not offer the best prices, particularly for poorer households. Depositing the money in savings accounts would allow the beneficiaries to search for the right market and moment for needed articles, taking advantage of better conditions and services. This option is particularly important when CCT programs make payments every two months, spacing out the payments over time.

Savings accounts also grant the beneficiaries not only privacy, but also independence. The saver is the only person with access to his or her account, giving him or her complete control over the income and how and when the money is spent.[4] This is particularly noteworthy in the case of women participants, because it gives them control over demands from their husbands and families. In this way, savings accounts also foster empowerment.

"We have learned many new things. Before, we didn't understand what savings meant. We have learned, because people here always saved in traditional ways. People in the countryside save by keeping money under the mattress, but we also have livestock, pigs or produce. Those savings are risky, though, because something could happen at any time and you could lose them. That's why I keep saving. When I deposit money, I can withdraw it whenever I like, and I can make another deposit when I have more money."

Member of the savings group Ricchariy Warmi
Age 47, married

Financial savings instruments can also be utilized to generate a resource base in emergencies, effectively acting as insurance and reducing vulnerability. This resource base can be accessed in times of need, such as an unexpected death, to cover funeral expenses without reducing food consumption. Likewise, financial savings instruments can be employed to save for future investment for starting or expanding a microenterprise.[5] This is beneficial,

4. Mayoux, L. (2000). Microfinance and the empowerment of women: A review of the key issues. *ILO Social Finance Unit*: Geneva.
5. Dupas, P., & Robinson, J. (2009). Savings constraints and microenterprise development: Evidence from a field experiment in Kenya. National Bureau of Economic Research, Inc, *NBER Working Papers. NBER Working Paper Series, w14693*.

because it helps create other income opportunities.

In conclusion, formal financial instruments help conditional cash transfer programs to foster better and more stable consumption. They help beneficiaries' improve consumption in various ways: making their assets more secure and offering divisibility and privacy, which makes them a more effective alternative to the informal options traditionally available. These factors help poor families prepare for unanticipated expenses and save for future investments, reducing their level of vulnerability and increasing their level of empowerment — helping to break the cycle of poverty.

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