

# The Impact of Financial Education on Conditional Cash Transfer Beneficiaries in Peru

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According to the World Bank's Global Financial Inclusion Database (Global Findex), in 2011, 39 per cent of the Latin American population over 15 years old had an account at a formal financial institution. In addition, about 10 per cent of the population received government transfers (mainly conditional cash transfers, CCTs) through bank accounts. However, only 10 per cent of the overall population had actually engaged in savings at a financial institution during the previous year. In Peru, only 20 per cent had an account at a formal financial institution: 3 per cent received government transfers through bank accounts, and only 9 per cent saved at a financial institution during the previous year. The figure for the 40 per cent at the bottom of the per capita income distribution was even worse: less than 3 per cent engaged in formal savings. This gap implies that the poorest people are not taking advantage of the potential benefits of using savings accounts. It is, therefore, expected that this rate is even lower for CCT beneficiaries—mainly Quechua-speaking rural women—among the poorest quintile of the Peruvian population.

After more than 30 years of non-governmental organisations insisting on the idea of microcredit worldwide, there is an emerging consensus that savings accounts might be the best way to financially include poor households. Moreover, there is strong evidence that credit is not as inclusive as previously thought, and evidence that the poor actually save (Rutherford 2001). However, financial inclusion does not consist of opening bank accounts alone (Dupas and Robinson 2013) but, rather, necessitates financial education to help develop financial capabilities to ensure good use of the financial products available. Can CCT beneficiaries actually save through the formal financial system?

The Savings Promotion Pilot (SPP) was implemented in Peru from June 2010 to March 2012. It sought to

promote formal savings among the poorest of the poor: beneficiaries of Peru's *Juntos* CCT programme.

The SPP targeted *Juntos* beneficiaries whose payments were made through personal bank accounts, and offered them financial education (training and follow-up sessions) in 17 specific districts of five regions in the Peruvian highlands.<sup>2</sup> Nonetheless, not every *Juntos* beneficiary attended the financial education sessions: the take-up rate of the SPP programme was around 50 per cent, reaching about 7000 people—95 per cent of whom were women. At the beginning there was also a small incentive component (a food bundle of around USD60 for savers only), which was later discontinued.<sup>3</sup>

Financial education, the main component of the SPP, was structured in four modules. The first created awareness about the SPP and invited women to form groups of up to 30 people. The following modules were taught to these groups in separate sessions, lasting about three hours each, over the next three or more months. The second module explored what the financial system is, how it works, the roles played by the government and the financial institutions within it, who the clients are, and their rights. The third module helped to explain financial services: their characteristics, related concepts, advantages and disadvantages, mainly regarding savings accounts. The fourth module intended to promote entrepreneurship among beneficiaries and the usage of more complex financial products, such as credit and insurance. It is also important to note that modules took more time to be completed in some districts, while others were not taught in their entirety.

Such implementation disparities make the SPP a non-homogeneous intervention. Thus, we limited the impact estimations to the three regions in which the fourth module was not delivered, and for which

we have baseline and follow-up survey data. The following results include only the intention to assess the impacts of financial education, which were calculated from the two surveys—gathered in July 2010 and July 2012—with 979 observations, 45 per cent of which belong to the treatment group.

The treatment districts were chosen taking into consideration the operational capacity of *Agrorural*, the office in charge of implementing the SPP. The control group was randomly selected from the non-treated districts. To minimise bias, we took advantage of the panel data available and used a difference-in-differences estimator. Additionally, we controlled for different covariates using propensity score matching. The variables we controlled for include: education, age, gender, level of political violence in the district, transaction costs (measured as the time needed to arrive at the nearest *Juntos* payment post) and a poverty index. The last two variables are particularly important to control for, given that they are very likely to be correlated with the operational capacity of the office that implemented the SPP. For each estimation, we used two specifications according to the type of matching (kernel density and radius matching).

The first expected impact of the SPP is to build confidence in the financial system among *Juntos* beneficiaries, which would lead to a change in savings habits. In fact, we found that the SPP increased by around 5 per cent the probability of participants knowing that savings at a bank are secure. Also, we found that due to the SPP the proportion of those who wanted to save at a bank increased by more than 16 per cent, and that the proportion of those who saved at a bank (since the beginning of *Juntos* in 2007) increased by more than 15 per cent.

Together, these results show that the SPP achieved its main goal of promoting formal savings among *Juntos* recipients by a large margin. In fact, after the SPP intervention, the population in the treatment zone



Photo: d.j. a., 2007, Ayacucho, Peru. <<https://goo.gl/3lOzLk>><<https://goo.gl/cefU8>>.

As a whole, the impact evaluation of the SPP shows that a face-to-face financial education programme without monetary incentives which targets the poorest families—mainly Quechua-speaking rural women in Peru receiving CCT benefits—can generate changes in its target population. We found positive impacts on income generation capabilities (i.e. investment in livestock), presumably derived from an increase in financial knowledge and savings. As such, this kind of programme is able to generate financial knowledge and promote savings even among the poorest populations. We also found impacts on empowerment at the community level and non-harmful effects on social networks, which suggest that these kinds of programmes do not have detrimental effects on social relationships.

increased its formal savings rate from zero to 16 per cent—which is almost double Peru's average formal savings rate (9 per cent). Nonetheless, it is important to note that, after the implementation of the SPP, only 25 per cent of those who wanted to save at a bank had actually done so, suggesting that the financial system may still be physically or culturally removed from the target population.

Despite the large impact of the SPP on the number of savers, the impact on the amounts they save at a bank (at data collection time) was either not statistically significant for the two specifications or was very small: around PEN5 (less than USD2). However, it should be noted that the target population belongs to the poorest quintile of Peru's per capita income distribution, and the amount of PEN5 represents 5 per cent of the monthly CCT benefit. However, the small amounts at data collection time may not reflect the total impact of the programme on savings, since households may have already invested part of their savings.

Furthermore, when analysing the impacts of the SPP on welfare variables, we found a 9 per cent impact on livestock acquisition. This impact was larger (and always significant) regarding the purchase of large farm animals (e.g. cows): 11 per cent; and it was around 7 per cent for small farm animals (e.g. guinea pigs). These large impacts may seem odd in comparison with the insignificant impacts on formal saving amounts; however,

this could be explained by the fact that savings—like rural income—follow a cycle, and by the impact on the amount saved at home (not through savings accounts), which was important—around PEN20 (less than USD7) though not statistically significant for one of the specifications used in the analysis. On the other hand, we found very small and not statistically significant impacts on the proportion of women owning businesses (which was not an objective of the SPP), suggesting that programmes similar to the SPP do not promote the opening of businesses, as expected from programmes that target women.

Additionally, we did not find conclusive evidence on changes in expenditures on health and education due to the SPP. Since we cannot claim a non-negative impact on these variables, we think it is possible that part of the savings comes from these sources, creating an unintended negative effect. Nonetheless, we consistently found an impact of the SPP on empowerment at the community level of nearly 14 per cent, as an indirect consequence of economic empowerment through savings. We also found a non-harmful impact of the SPP on the social networks of the programme beneficiaries: there is an insignificant (close to zero) impact on the proportion of the population receiving economic help from others, while the proportion of those giving economic help increased by around 9 per cent.

In addition, it is worth noting that the target population was receiving the *Juntos* benefit through a bank account. Thus, even though having an account is not enough to achieve financial inclusion, it is a first step towards it, since we also found that transaction costs (i.e. distance to the bank) usually weakened the results. As a final remark, from the results presented here, we believe that financial inclusion—even though it is not a 'silver bullet'—is relevant as part of a social protection graduation strategy to help the poor emerge from poverty and not slip back. ■

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2. It is worth noting that at the beginning, 24 districts were randomly selected for intervention, but budgetary issues did not permit all of them to be reached. Thus, intervention in the 17 districts was not perfectly random.
3. Cole et al. (2009) found significant impacts from small incentives to open savings accounts, which disappeared when linked to a financial education programme.