

CGAP G2P Research Project

Colombia Country Report



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EXECUTIVE SUMMARY

1. Familias en Acción is the largest cash transfer program in Colombia, reaching about 2.5 million families. It has made major efforts and investment to shift from a cash-based payment system to a financially inclusive one that offers savings accounts to recipients. After account opening events in 2009 and 2010, over 2.4 million Familias beneficiaries got their no-frills savings accounts at Banco Agrario (BA), a government bank, and today over 90 percent of recipients withdraw their bimonthly grants directly from these accounts.

2. This report summarizes the findings of research conducted in Colombia on the business case for shifting Familias payments to a financially inclusive scheme linked to bank accounts, from the standpoint of BA, the recipients, and the program itself. It aims to answer the following questions:

- a. Can financial institutions offer financially inclusive services to recipients on a profitable basis?*
- b. Will poor recipients use financial services if they are offered to them?*
- c. Is building in inclusive financial services affordable for the program?*

3. The push for savings accounts comes from Banca de las Oportunidades (BDO), which has a mandate to increase financial inclusion, as well as from the government strategy to combat poverty (Red Unidos). BDO sees Familias as a platform to advance its goals and believes that the savings accounts could serve as a gateway to a wider range of financial services. Red Unidos sees financial inclusion as one of nine dimensions to combat extreme poverty.

4. Familias does not have a financial inclusion mandate and holds no position with respect to the interplay between government transfers and financial inclusion. But it has great interest in increasing the efficiency of grant payments to introduce convenience and reduce costs for recipients. Hence, implementing electronic payments has a strong appeal, as they typically reduce travel and wait time for recipients and cut leakage and fraud. The main

downside of the current account-based scheme is its high cost. A new tender for the grant payments will open at the end of 2011. The tender's main goal is to reduce costs and offer an inclusive financial instrument to recipients.

5. With regard to research question (c), the information available and the opinions portrayed in this report suggest that, without taking into consideration the benefits for recipients and the developmental potential of the financially inclusive payment method, the current costs seem very high compared to previous payment schemes and may be compared to some other country experiences.

6. From the supply side (research question [a]), our analyses indicate that it will be difficult for BA to sustain the Familias savings accounts if it loses the grant payment business in the next tender. Reportedly, the bank's current vision is to look at recipients as full clients, but these accounts and clients are not yet financially viable without being subsidized by the fees paid by Acción. This is due to low account balances, low transactionality, and an underdeveloped product offering and distribution network. Under the present conditions the bank is not able to generate sufficient client income to offset the costs of account opening, free transactions, third-party services, interest payment, and investment in infrastructure, systems, and personnel.

7. As a result, profitability is proved only with the income from government fees. The bank's investment in Familias clients is a function of the need to keep the grant transfer business as a source of fee income, since the fee not only is sufficient to revert the loss that would be made in the recipient accounts, but also provides significant extra revenue.

8. Finally, from the demand side (question [b]) the available research found that the move to account-based payments has been—for the most part—well-received by beneficiaries. Its greatest advantage is the reduction in transaction costs for recipients; urban beneficiaries also saw value in the savings capability. However, there is little evidence the accounts are being used for savings or as a gateway for other

services. Beneficiaries do save, but mostly in the form of cash in the house or livestock. The majority knows they have a bank account at BA and can save there, but many reasons seem to discourage the use of this instrument. Distorted messages from Familias and the bank appear to play a role in this regard.

9. The findings indicate that recipients will not fully benefit from the account and will continue to withdraw their grants in full immediately because of the lack of effective communication by the program and the bank and extensive payments network (outside the current dedicated infrastructure).

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CORE TEAM: BANKABLE FRONTIER ASSOCIATES

David Porteous (Project Director)
John Ratichek (Project Manager)
Anand Menon (Assistant Project Manager)
Daryl Collins (Demand side design)
Julie Zollmann (Demand side manager)
Beatriz Marulanda (Core team advisor)
Denise Dias (Core team/country consultant)
Caroline Pulver (Core team/country consultant)
Mariana Paredes (Demand side, Colombia)

The primary author for this country report is Denise Dias.

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1 Introduction

1.1 Background

CGAP research to date on banking the poor through government-to-person (G2P) payments has lead to certain key questions that remain to be answered about the core propositions involved in financially inclusive social transfer payments:

1. *Provider bank proposition*—Can financial institutions offer financially inclusive services to recipients on a profitable basis?
2. *Client proposition*—Will poor recipients use financial services if they are offered to them?
3. *Government proposition*—Is building in inclusive financial services affordable?

With the purpose of building on its previous work, CGAP has commissioned Bankable Frontiers to conduct cross-country research to probe the case for financially inclusive G2P payment methods, with a focus on bank account-based schemes. The study covers the largest cash transfer programs in South Africa, Brazil, Mexico, and Colombia and looks into the incentives for the most important players involved in the transfer programs: the government, the recipients, and the bank. (See Table 1.)

Table 1: Research countries, programs, and financial institution

Country	G2P Program	Bank
Brazil	Bolsa Família	Caixa Econômica
Mexico	Oportunidades	Bansefi
South Africa	Child Care, Old Age	Absa/All Pay/Standard
Colombia	Familias en Acción	Banco Agrario

This research seeks to answer the questions mentioned above by exploring three areas: (a) use of accounts by recipients (by analyzing transactional data); (b) costs to banks and governments; and (c) perceptions of recipients about ease of access, challenges posed by the payment process, and value placed on having access to the account.

In Colombia, (a) and (b) involved several rounds of in-person and phone interviews and email exchanges, from April 2011 to August 2011. The aim was to explore opinions and data to support conclusions about the incentives for the Familias en Acción program and the bank. The list of people interviewed is provided in Annex C.

Area (c)—the demand side component—included analyses of available quantitative and qualitative research and original research designed and conducted specifically for this project: eight focus groups and five in-depth interviews in four municipalities, with 74 beneficiaries who had participated in a pilot program to encourage savings, promoted by Banca de las Oportunidades (BDO). The full report on the demand-side research can be found in Annex B.

This report summarizes the findings of both the supply- (Section 3) and demand-side research (Section 4) in Colombia, and presents strategic policy insights resulting from the findings.

1.2 Familias en Acción and its context

Familias en Acción is the largest conditional cash transfer (CCT) program in Colombia. It was created in 2000 to help the poorest families in the country and to facilitate accumulation of human capital, development of professional capabilities, and reduction of inequalities. It was recently turned into a key component of the national social protection and poverty reduction strategy called Red Unidos (formerly Red Juntos). Red Unidos was created in 2007 to provide social assistance to 1.5 million families in extreme poverty, of which 50 percent received subsidies from Familias en Acción. Through Red Unidos, Colombia has been moving away from isolated initiatives and unconditional transfers toward a welfare transfer system whereby numerous social divides are addressed in a holistic approach managed by an office that specializes in CCTs, namely Acción Social, to reduce poverty in the long run.

Familias started as a three-year emergency program to bring relief to poor families affected by the economic, political, and security crisis of the 1990s, when the country saw negative growth rates and unemployment of about 20 percent. Poverty levels in rural areas reached 85 percent during that decade. In 2005 displaced families were added as beneficiaries of Familias. Familias initially targeted 340,000 families in 300 municipalities with fewer than 100,000 inhabitants (which represent 95 percent of the total municipalities in the country). By 2006 Familias was covering 700,000 families in 848 rural municipalities. With its integration into Red Juntos in 2007, it expanded to urban areas and reached 1.5 million families (1.2 million poor and 300,000 displaced). This goal was again increased to reach 3 million families in 2009.¹

In December 2010, 2,734,841 families, living in all but two of the 1,100 municipalities in the country,² were registered in the program (2,434,466, or 89 percent were beneficiaries).³ With no end date, Familias has become an important pillar of Red Unidos, a tool designed to lessen the effects of an intergenerational poverty trap and the social divide resulting from insufficient investment in physical and human capital. It has been incorporated into subsequent national development plans.

The grants are paid every two months and have two components: health (nutrition) for families with kids under seven years old, and education for families with kids between 7 and 18 years old. The health component, at 50,000 pesos (US\$27.93) per family per month, aims to improve children's nutritional levels during their critical growth phase. The educational component, at 15,000 pesos (US\$8.38) per month per child in primary school and 30,000 pesos (US\$16.76) per month per child in secondary school, aims to increase school attendance and avoid desertion. In 2010 an average of 98,381 pesos (US\$54.96) were paid to the head of each beneficiary family every two months.⁴

¹ For details about the expansion phases of the program, see Documento Conpes 3359, 27 June 2005, and Documento Conpes 3472, 4 June 2007.

² Familias en Acción Report to IADB second semester 2010, December 2010.

³ Not all registered families receive the grants for many reasons, such as not producing necessary documentation. Registered families are potential beneficiaries of the grants.

⁴ Calculated by the author based on data from Report *Familias en Acción* second semester 2010 to IADB.

The families targeted by social programs in Colombia are systematically identified and added to a database called Sisben (Sistema de Selección de Beneficiarios). The database is divided by levels of income based on four indicators (housing, education and social security, services, and income). The lowest income level is Sisben 1; this is the focus of Familias en Acción.

Familias beneficiaries are in three groups: the extreme poor in rural and urban areas, the displaced, and the indigenous.⁵ To be eligible for the grants, a family needs to have at least one child under 18. Approximately 346,000 of the families receiving the grants today are displaced, and 70,000 are indigenous. In total, Familias covers over 60 percent of the eligible families in Sisben, half of the displaced families and 25 percent of the indigenous population. This represents 25 percent of the total population and 55 percent of the poor in Colombia.

To receive bimonthly payments, the family needs to meet certain conditions, which are verified six times a year (in each payment cycle). Conditions include the following:

- 1) *For the educational component*—keep kids at school, with a minimum attendance rate of 80 percent.
- 2) *For the health component*—take the children to programmed health activities, such as vaccination, health education, and monitoring at the local hospitals and health centers.

1.3 Program management

Sixty percent of the program budget comes from an IADB/IBRD joint loan, and 40 percent comes from the federal budget. In the coming years, the program will be covered entirely by the government. Acción Social, a decentralized body of the Presidential Office, operates Familias. The Health and Education departments are also deeply involved, as they are responsible for guaranteeing public services to the families, and they help to monitor conditions.

The operation involves a complex net of private and public entities and activities at three levels: national, regional (departments), and municipal. Acción Social has 27 regional offices to cover the 32 departments of the country and, through its partnership with Health and Education, has signed agreements with each municipality to do the following:

1. Ensure education and health services are provided to the beneficiaries
2. Provide a local office for the operation of the program
3. Provide local staff to operate the program

As a decentralized and participatory operation, Familias also relies on beneficiaries to be involved in the decision-making process,⁶ through a series of meetings, assemblies, and social activities facilitated by program operators and leader mothers. (Leader mothers are beneficiaries

⁵ According to World Vision Colombia, the armed conflict in the country mainly affected the rural areas, leading agricultural families to seek refuge in other places, such as large cities. Today, Colombia has one of the largest numbers of internally displaced people in the world. <http://www.worldvision.org/news.nsf/news/colombia-displaced-families-200911-ene>

⁶ For example, decisions on which education services, such as trainings and workshops, are provided to a given community.

elected by neighborhood assemblies to serve as links between program administration and beneficiaries). The pivotal role played by leader mothers, especially in facilitating social cohesion and participation, is regarded as one of the success factors of Familias.

This decentralized scheme allowed the program to keep operational expenses at minimum. In 2010, the program spent 7 percent of the budget on the operation itself,⁷ even though 2009–2010 was a period when the costs of doing the grant payments were relatively high compared to previous years (about 17 percent of the average grant until early 2011, when this cost reduced to approximately 10 percent after negotiations with the payer bank).⁸

Table 2: Familias en Acción key numbers⁹

	Average number of beneficiaries per payment cycle	Average number of recipients per payment cycle	Total value of transfers (US\$)	Administrative costs as percent of total expenses
2010	4,962,895	2,417,438	136,870,306	0.17
2009	5,133,398	2,325,136	140,046,023	0.22
2008	3,912,386	1,611,322	108,293,983	0.11

1.4 Impact and challenges

The impact evaluations conducted since the beginning of Familias en Acción highlight how it has helped transform the lives of Colombians by increasing consumption, welfare, and demand for health and education services; improving capabilities, nutrition, and physical indicators of children; reducing child labor; ensuring minimum attendance at schools; empowering women; and making sure families complete vaccination cycles. The co-responsibilities (activities offered by the state to beneficiaries) and the active participation of the leader mothers have forged a “social contract” between citizens and the state where each one assumes a set of responsibilities.¹⁰ In 2002, 53.7 percent of the population was in poverty. By 2009, this number had reduced to 45.5 percent. Moreover, the number of indigents reduced from 19.7 percent to 16.4 percent of the population in the same period.

Also, the impact has been more robust in rural areas than with the urban poor and indigenous groups. Familias has been criticized for its intervention in the urban setting, for not adjusting the parameters of the program adequately to account for the differences between urban and rural poverty.¹¹ Hence, segmented program evaluations have been and are being carried out to improve the interventions accordingly. Another challenge is engaging indigenous communities, given their autonomy from the state (they cannot be “forced” into social programs) and different social structures varying across different indigenous groups.

⁷ *El camino recorrido: 10 años Familias en Acción*, Acción Social, 2010.

⁸ Section 2 details the grant payment schemes and costs.

⁹ Information provided by Acción Social, 12 July 2011.

¹⁰ *El camino recorrido: 10 años Familias en Acción*, Acción Social, 2010.

¹¹ *Aciertos y Desaciertos de Familias en Acción*, Orazio Attanasio, in *El camino recorrido: 10 años Familias en Acción*, 2010, p. 80.

However, as in many other CCTs in the developing world, the greatest challenges are outside their limited scope of alleviating extreme poverty. First, the quality of public services, such as education and health, may be very low in some areas. Second, there is a lack of job opportunities for the beneficiaries who manage to improve their conditions through the program's interventions. Last, designing exit strategies that help beneficiaries graduate out of the program and achieve permanent economic and social emancipation continues to challenge the Colombian government.

1.5 Financial inclusion goals and Familias en Acción

As part of the government's poverty reduction strategy, financial inclusion is high on the agenda and has ramifications in many government interventions, including CCTs. At least once a week the previous president used to speak on the topic in televised town hall meetings organized in different locations in the country. In such events, he also publicized the results of BDO, a government program created in 2006 to increase access to formal financial services by the poor.¹² BDO encourages formal financial institutions and registered nongovernmental organizations (NGOs) to provide financial services to underserved populations. In addition, BDO has pushed for regulatory reforms, some of which have had an important impact in the payments options of Familias by facilitating the account opening process.¹³

Financial inclusion is not a formal goal of Familias. Acción Social does not have a publicized position regarding the interplay between inclusion and CCTs. It does acknowledge, though, the benefits of nurturing savings habits among beneficiaries and the potential impact on savings habits from paying through accounts. Regardless of these considerations, Colombia is today among the few developing economies where most (91 percent) of the recipients of the major CCT program are enrolled to receive their grants through deposits in savings accounts. According to our interviews, there might be room still to increase the number of banked recipients through targeted interventions that address lack of identification documents and fear of dealing with banks.¹⁴

The move away from cash-based payments resulted in part from collaboration between Acción Social and BDO. From Acción's side, the shift (which had already been piloted with prepaid cards in 2007) has been motivated mainly by the need to be efficient and to reduce transaction costs for recipients; however, Acción acknowledged that the new system would result in higher administrative costs. BDO saw Familias as a platform to advance its financial inclusion goals, and believes that savings accounts could serve as a gateway to offer a wider range of financial

¹² See <http://www.bancadelasoportunidades.gov.co/portal/default.aspx>.

¹³ In 2009, BDO worked with the Financial Superintendence and the Ministry of Finance to create an electronic savings account specifically targeting people registered in Sisben 1. These accounts can be opened in bulks by a bank based on an agreement with Acción Social. The shortcoming is that the regulation does not include indigenous or displaced people, as they are not in Sisben 1.

¹⁴ Nonetheless, both BDO and Acción Social realize that it is not possible to open accounts for all beneficiaries, as some of them live in communities where the bank account would be of very little use; on the contrary, it could create inconveniences to some recipients. In such situations, cash payments will continue to be the most efficient method.

services to this previously financially excluded population. From Red Unidos’ perspective, the collaboration would help to advance financial inclusion—one of its nine dimensions to combat extreme poverty.

Despite the major effort and the costs of opening beneficiary bank accounts, Acción is not fully convinced recipients are able to save, as evidence is just starting to emerge (see Section 4). The case for Acción’s assuming a higher cost is still to be proved, particularly because there are areas for improvement, such as in increasing transparency of the costs faced by the payer bank. Also, some at Acción think there might be a trade-off between the objectives of Familias and the promotion of savings with the use of the cash transfers because transfers are designed to improve spending toward meeting basic needs of the poor, such as food.

Table 3 reflects Acción’s thinking that there is no clear case for investing in grant payments through bank accounts. The answers in the table suggest that the institution believes that lack of a business case for the payer bank or lack of demand for services by beneficiaries (Statements 6 and 7) are not obstacles for full financial inclusion. Acción’s internal disagreement with respect to financial inclusion is reflected in the neutral scores assigned to statements 1, 2 and 5.

Table 3: Views from Acción Social on financial inclusion (1=fully agree; 5=fully disagree)

	Statement	Score
1	The recipients of cash transfers in our country can and do save.	3
2	Considering all categories of cost, electronic payments of transfers are cheaper for government than cash payments.	3
3	Introducing financial inclusion to social transfers increases complexity for scheme managers.	2
4	Introducing financial inclusion objectives for social transfers increases cost to government without clear compensating benefits.	1
5	The benefits of financial inclusion for social transfer recipients have been proven and are widely accepted in our ministry.	3
6	The biggest obstacle to full financial inclusion is on the demand side: clients don’t necessarily see the benefit.	4
7	The biggest obstacle to full financial inclusion is on the supply side: banks are unwilling to provide full services because they cannot do so profitably.	5
8	Within 10 years, all recipients will be paid into their bank accounts	5
9	The case for governments to require all social transfers to be paid directly into bank accounts is strong.	4

Aside from these considerations, the positive impact of merely shifting payments to savings accounts has been acknowledged by Acción. Recipients are now free to choose when to cash their grants, instead of having to gather in a specific place, on a certain date, and at a particular time. This is not to suggest there are no other challenges with the financially inclusive payment method. Emerging evidence (see Section 4) indicates that recipients still need help to take full advantage of this method to save time and money in receiving and using Familias grants.

Instead of debating the pros and cons of the current method, since most payees are already receiving their money through accounts, Colombian institutions seem to have moved on to search for ways to make the accounts more meaningful for beneficiaries. They are undertaking a range of research efforts to inform BDO's financial inclusion interventions, Familias activas, and the commercial strategy of the bank. For instance, a study from the Inter-American Development Bank (IADB) has evaluated the impact of the savings accounts on the formal savings of recipients. Another department of Acción—outside Familias—has a matched savings pilot program with 100,000 Familias recipients to test results in income generation.

BDO has been supporting the Pilot Program to Promote Savings Culture (PPCA), to encourage formal savings among 49,350 Familias beneficiarias in 12 small municipalities. The incentives (lottery-like products and financial education, or a combination of both) are implemented in different municipalities, and the impacts of the interventions in changing behavior and perceptions toward savings are evaluated in these municipalities and also measured against a control group that does not receive any incentives. Some of the results of a PPCA baseline survey are presented in Section 4.

1.6 Level of financial inclusion in *Familias en Acción*

Three main approaches to making social transfer payments can be distinguished:

- **Cash** (where the beneficiary has to appear at a particular payment point, often at a particular time, to receive her payment). In this case there is no store of value created for the individual and hence no way for her to opt to withdraw less than the entire payment.
- **Limited purpose instrument.** These instruments transfer the grant to (at least) a notional account earmarked for the recipient. This virtual or literal earmarking enables more choice of times and locations at which the recipient can withdraw the funds. Nonetheless, the functionality of this account is restricted in one or more ways:
 - (i) The funds cannot be stored indefinitely. If the funds are not withdrawn in a defined window of time, the program may reclaim the funds as unspent.
 - (ii) No additional funds may be deposited into this account from other sources.
 - (iii) Cash may be withdrawn only at dedicated infrastructure—that is, at agents or cash points that are specifically established for this purpose only (and that, therefore, other people cannot use).
- **General purpose instrument.** These are accounts where none of the above limitations applies and are usually bank accounts that are also available to nontransfer recipients as well. The beneficiary benefits from the same functionality as any other user of the account.

Table 4 divides Familias en Acción into levels of financial inclusion. “Not included” are cash-based payments or payments using a limited purpose instrument. Today, over 2.4 million registered beneficiaries (out of 2.7 million) have savings accounts with Banco Agrario (BA). According to the classification above, these are limited-purpose bank accounts, since they are operated through a card that can be used only in a dedicated infrastructure. In the payment cycle

that ended in May 2011, over 90 percent of the recipients received their grants through savings accounts, while the remaining received their grants in cash. As noted, there is room to increase the number of bank accounts, but not by much, as most of the beneficiaries who are not included today are from indigenous communities that have specifically requested not to be included.

Table 4: Level of inclusion in Familias en Acción in May 2011*

Not Included		Included
Cash-based payments	Limited purpose instrument	General purpose instrument
203,264 (9.23%)	1,998,296 (90.77%)	0

*Information provided by BA in June 2011. Percentages are in relation to the total number of recipients in May 2011 (2,201,560). The total number of families with savings accounts is higher, as the account opening process targeted those registered families, not only recipients. Of the 2.7 million registered families, 2,636,980 were called to open accounts, and 2,419,461 (as of December 2010) opened accounts.

2 Overview of the payments schemes

2.1 The previous scheme

Acción considered different schemes for the delivery of the grants before choosing how to start making Familias payments in 2001:¹⁵

1. Checks—this option discarded because the high costs involved in production, packaging, custody, security, transportation, distribution, and devolution of unused checks.
2. Fiduciary actor—this would be a third party that would receive the cash and distribute it to the banks, which would then make the transfers to the recipients. This option was also discarded because of its costs, which would amount to 11 percent of the grants.
3. Savings accounts at banks—Acción talked to banks to gauge their interest in making the payments through accounts. This option was discarded because: (a) banks were not interested since the target population was not their usual market; (b) banks would need to charge fees on the accounts to cover the costs; and (c) the accounts were not exempted from the financial transaction tax and such costs could not be covered by the program, even less by the recipients.
4. Transporting cash to local government—the local government would assume responsibilities, such as securing the cash during the payment period. This option was discarded because of the costs to local governments
5. Bonuses to substitute payments—Acción ran a pilot with Sodexho Pass that produced paper-based bonus certificates and signed agreements with commercial establishments that would accept the bonuses as means of payments for products and services. This option was discarded because of low acceptance by recipients who preferred having cash in hand.
6. Through BA—Acción negotiated with the only retail government bank in Colombia to make the payments in cash at its branches.

Based on a pilot with BA in 60 municipalities using the remittances model (no accounts), Acción was able to bring into the program six other banks (Banco Popular, Banco de Bogota, Banco Occidente, Banco DaVivienda [former Bancafe], Bancolombia, and BBVA). This was particularly important in 2007 as the program extended to urban areas. From 2001 until early 2009 the seven banks offered four payment modalities:

- i. In the municipality.¹⁶ Payments are done in the bank branches where branches existed, according to days and times determined by the banks.
- ii. At extended cashiers (cajas extendidas). This option was offered by BA only, in locations where it did not have branches. The bank installed a temporary service unit (branch) for the period necessary to make the payments.
- iii. In the neighboring municipality. Recipients were required to travel to the closest municipality to receive the payment in a bank branch.¹⁷

¹⁵ *El Camino Recorrido: 10 años Familias en Acción*, Acción Social, 2010.

¹⁶ The branches where grant payments were done were located, in most cases, in the head of the municipality, where the city council is located.

- iv. On prepaid card. After winning a tender in 2007, Banco Popular offered, during 2008, prepaid card-based payments to over 350,000 families in the departmental capitals (plus one large municipality, Buenaventura).¹⁸

Each payment, done against the recipient's ID and the paperwork prepared by Acción (i.e., three standard forms), was valid for 20 days (cash payments today are still valid for 20 days). Banks sent the unclaimed grants back to Acción. Recipients who failed to cash the grant after more than three payment cycles were excluded from Familias.

Table 5: Payment modalities by early 2009

Modality	Number of municipalities	Number of families	percent
Branch in the municipality	770	1,120,519	67
Extended cashier	185	100,750	6
Neighbor municipality	115	83,657	5
Prepaid cards	25	372,725	22
Total	1,095	1,677,651	100

Source: *El Camino Recorrido: 10 años Familias en Acción*, Acción Social, 2010

To enable the payments, Acción opened one or various accounts with each of the seven banks and signed third-party payments contracts linked to those accounts. Acción produced the payroll with the information of the recipients and grant values, per bank branch where the payments were done. No minimum performance standards were imposed on the banks, and there were no substantial differences across the seven contracts. Generally, all or most contracts established the following:

- Acción is to deposit the funds at least five days before the grant payment date.
- Acción is responsible for informing recipients where and when the payments would be done.
- The grant payments would be made in bank branches, unless otherwise agreed.
- The payroll needs to conform to standards established by each bank.
- The bank is not liable if the transfers are not completed due to system failures, insufficient funds in the fund account, or errors in the payroll.
- Acción has 30 days to present a complaint about each payment cycle, otherwise the bank is considered fully compliant with the terms of the agreement.
- The bank can change the commercial terms unilaterally every six months, but it must give Acción an advance notice of 30 days. The change is considered accepted by Acción, unless it manifested its disagreement within eight days from receiving the notice.
- The fee per payment will be increased annually based on the consumer price index (although it seems this has never been done).
- Payments are distributed¹⁹ during the 5th and the 25th of each payment month.

¹⁷ Municipalities in Colombia vary widely in size and geographic isolation, which makes it difficult to affirm whether a payment in a neighboring municipality was always farther away than a payment done in the municipality. In all cases, recipients or, in some cases, the municipality faced transportation costs.

¹⁸ The tender received bids from Banco Agrario, Banco Popular, and Citibank. Banco Popular's cards were Visa cards (processed by Credencia Visa Colombia) produced by Assenda (currently Carvajal Tecnología y Servicios). Assenda is part of a large group (Carvajal) that provides logistics, outsourcing, information technology, packaging, event planning, and communications services. It has developed the system through which Acción monitors the fulfillment of the conditions by families enrolled in CCTs (*Sistema de Información y Registro de Compromisos* [SIRC]) and plays an important role in the present Familias payments scheme. www.carvajal.com

- The bank is not responsible for receiving complaints from recipients.
- Some contracts (e.g., BBVA) explicitly state that the bank is not obliged to open accounts to recipients.
- In the case of BA, the payments will be scheduled in such a way to avoid having more than 100 payments per branch per day.²⁰

The fees per payment for the branch-based scheme did not vary substantially across contracts. Only the contracts with BA and Banco Popular included payment methods other than branch-based. In the case of BA (extended branches), the fee per payment did not differentiate the different methods, but in the case of Banco Popular (prepaid cards) it did.

1. Banco Agrario

- Pilot phase: During the pilot phase Acción signed several short-term contracts, increasing gradually the number of beneficiaries and municipalities. The contracts covered the period from December 2000 to June 2002, only for branch-based payments.
- Open-ended phase: The first open-ended contract was signed in February 2002 keeping the previous fee per payment of 4,000 pesos plus VAT. The extended cashier modality was added to the scheme in 2005 on a pilot basis without changes in the fee (Acción paid the cash transportation costs separately). It was finally incorporated into the overall agreement and the fee was increased to 5,500 pesos plus VAT. In early 2008, another amendment allowed the use of third parties and agents (corresponsales no bancarios), increasing the fee to 8,000 pesos plus VAT per payment.

Table 6: Most relevant contracts between Acción Social and BA

Date	Validity	Value (pesos)	Total Fee + VAT (pesos)	Recipients	Municipalities	Payment Modalities	Fee per payment (pesos)
12/2000	30 days	56,000,000	No fees paid	701	2	Branch	0
04/2001	60 days	1,105,540,960	64,560,960	13,914	21	Branch	4,000 + VAT
08/2001	60 days	1,674,240,000	74,240,000	16,000	19	Branch	4,000 + VAT
12/2001	60 days	13,322,043,414	717,668,800	152,791	N/A	Branch	4,000 + VAT
02/2002	Open-ended	Variable	Variable	Variable	Variable	Branch	4,000 + VAT
03/2002	60 days*	13,322,043,414	717,668,800	152,791	N/A	Branch	4,000 + VAT
08/2005	Open-ended**	Variable	Variable	Variable	167	Pilot extended cashier	4,000 + VAT***
01/2007	Open-ended**	Variable	Variable	Variable	Variable	Branch + extended cashier	5,500 + VAT
03/2008	Open-ended**	Variable	Variable	Variable	Variable	Branch + extended cashier + third parties	8,000 + VAT

*Extends the 12/2001 contract.

**Amends the 02/2002 contract.

***Acción covered cash transportation costs.

¹⁹ Dates and logistics of distribution were defined through agreements between the banks and each local government.

²⁰ In municipalities with fewer than 1,000 recipients, the bank had 10 days to make the payments. Otherwise, it had 20 days, but always respecting the maximum of 100 payments per day as a rule. If a branch had to do more than 100 payments per day, the payment period would extend until the last business day of the month.

2. **Banco Popular:** A 2002 open-ended contract established a fee of 3,500 pesos plus VAT per payment. Another contract valid for six months was signed in February 2008 for the card-based payments. Acción paid 10,435 pesos plus VAT per each payment under this modality, including deposits by beneficiaries. The bank was required to offer two free withdrawals per month at its own ATMs and debit purchases. The contract also included a hotline to receive complaints, balance inquiries, and solve problems with the cards.
3. **Banco DaVivienda (former Bancafe):** A 2001 open-ended contract established a fee of 3,500 pesos per cash payment plus VAT, increased to 4,000 pesos plus VAT per payment in a 2008 amendment.
4. **Banco Occidente:** A 2002 open-ended contract established a fee of 3,000 pesos plus VAT per payment, increased to 3,500 pesos plus VAT per payment in a 2006 amendment.
5. **Banco de Bogota:** A 2002 open-ended contract established a fee of 3,500 pesos plus VAT per payment, increased to 4,000 pesos plus VAT per payment in a 2007 amendment.
6. **BBVA:** A 2002 open-ended contract established a fee of 3,500 pesos plus VAT per payment, increased to 4,000 pesos plus VAT per payment in a 2006 amendment.
7. **Bancolombia:** A 2002 open-ended contract established a fee of 3,500 pesos plus VAT per payment, increased to 4,000 pesos plus VAT per payment in a 2006 amendment.

According to Acción, from the start of the program until 2008, US\$19,099,790 was spent in fees to the payer banks. On average, this represents 2.56 percent of the total disbursed to recipients in the same period (US\$746,586,973). The contracts with BA and Banco Popular established much higher fees than the average.

The above mix of contractual relationships was considered relatively economic to the program, but presented some shortcomings that affected primarily the recipients:

- Long queues and congestion in branches, especially when the payments coincided with other mass payments, such as pensions
- Impossibility of cashing the grant in the days specified by the bank, leaving the recipients without the money until the next payment cycle
- Costs and, in some cases, lack of security of the transportation method used by the recipient
- In urban centers, difficulty in going to the specified branch where the payment was being done

From Acción's point of view, the cash that did not reach the recipients needed to be reintegrated to the Treasury, negatively affecting the operation of the program and the Treasury's own financial controls. This reintegration also created administrative costs to the banks.

2.2 The current scheme—savings accounts

The 2008 renegotiation of the loans from IADB and IBRD for the 2007–2010 period required a new international tender for Familias payments. Given the shortcomings of the previous scheme,

the government's push for financial inclusion,²¹ and the need to conduct a new tender, in late 2008 Acción Social, in collaboration with BDO, opened an international tender to shift the payments to deposits into savings accounts that would be opened to all Familias beneficiarias. According to a recent publication, Acción aimed to do the following:

1. Decongest branches by giving recipients the opportunity to withdraw the grant at will
2. Give flexibility for the mothers to withdraw the money when they wanted
3. Eliminate the financial risks of the program (by eliminating reintegration to the treasury)
4. Optimize financial planning and operation of the program
5. Reduce transaction costs for the recipients
6. Increase security for the recipients (avoid robbery and accidents)
7. Encourage economic development of the municipalities where there is no bank branch by pumping cash into these places
8. Improve living conditions of the families by giving an opportunity to access other financial services.

The tender (in which BDO provided some advice) divided the country into 10 groups of municipalities with different characteristics, combining big urban centers with small rural municipalities, thinking that this could benefit the business case for the banks. Each bidder could present a proposal for one or more groups (but not to a fraction of a group) and was required to make payments in the municipality of the recipient,²² open savings accounts to all recipients; and use the entirety of its distribution network with maximum security and transparency. The fee per payment was the criterion to determine the best offer.

The only proposal came from an alliance between BA and Assenda, named Union Temporal. Other banks did not participate for a variety of reasons, including the fact that the recipients were not their usual market and that the geographic coverage required by the tender was not compatible with their network. (Banks in Colombia, except for BA, focus their operations in 300 municipalities. At the time, BA had a branch network covering more than 720 municipalities.) For instance, Banco de Occidente offered to make the cash payments only and not open accounts for a fee of 19,327 pesos per payment. Banco Popular said that it would need to charge 36,000 pesos, which was three times what it received from the previous scheme.

As a result, Union Temporal won the bid, and some negotiations ended in a fee schedule (see Table 7) according to the group of municipalities being served and included the costs of opening the savings accounts. The resulting average fee per payment was 16,043 pesos or 18,610 after VAT.

²¹ See Conpes Social 102, which identified Familias en Acción as the main activity of the strategy to eradicate extreme poverty and that one of the objectives of such strategy was to incorporate the poorest families into the formal financial sector and encourage savings among them.

²² The modality "neighbor municipality" was eliminated.

Table 7: Fees paid to Union Temporal 2009–2010

Group	Fee before VAT	Fee after VAT
1	16,638	19,300
2	17,500	20,300
3	18,017	20,899
4	15,690	18,200
5	14,742	17,100
6	15,345	17,800
7	16,897	19,600
8	14,655	17,000
9	15,173	17,600
10	15,776	18,300
Average	16,043	18,610

Source: Acción Social, July 2011.

Seventy-five percent of the fee income went to BA, and 25 percent went to Assenda. The fees to Assenda (which are paid by BA) cover the call center (20 percent), the processing of the debit card transactions (30 percent),²³ the account opening starter kits (5 percent), and logistics, including establishing a merchant network (40 percent). As in the previous schemes, Acción Social has not had access to a detailed cost breakdown.

The contract was signed in February 2009, and the implementation started in March 2009. Acción continued to produce the bi-monthly payrolls, which were sent to Union Temporal five days before the payment date. The underlying funds are transferred by Acción in the same timeframe. The grant payments are spread out in the 20 days subsequent to the day of the credit, for logistical reasons, i.e., to avoid liquidity shortages and crowds at each payment point. The account-based payment is considered done when the recipient's account is credited, and when the recipient withdraws the money, in the case of the cash-based payment. If Union Temporal did not fulfill the terms of the contract, such as failing to stick to the account-opening program, it was subject to a fine of 2 percent of the value transferred by Acción, per each day of noncompliance, up to 10 percent of the value.

Assenda was responsible for organizing the logistics of the massive account opening process (see Box 1). By December 2010, 91.8 percent (2,419,461) out of the 2,636,980 families called to open the accounts had successfully done so. According to BA, 1,998,296 families received their grants through deposits in the accounts in May 2011, out of 2,201,560 total recipients in that payment cycle. Cash payments are still done in roughly 140 municipalities to about 270,000 recipients, at bank branches and extended cashiers. The remaining cash payments are cases

²³ The card administrator is Assenda, there is no Visa/Mastercard brand. For a debit transaction, the payment instruction comes to Assenda from the merchant. Assenda checks the balance in the recipient's account at Banco Agrario and processes the payment. The merchant eligibility criteria are set by Assenda.

where recipients or community leaders did not want the accounts,²⁴ there is a lack of identification documents, or the beneficiary did not show up for the account opening events.

The BA savings accounts are operated with an Assenda debit card for withdrawals at 2,500 merchants in 800 municipalities, 739 BA branches and 357 ATMs, and 1,100 shared Servibanca ATMs.²⁵ The card can be used for purchases at merchants affiliated with Assenda but not at those outside the Assenda network. To make a deposit, the recipient needs to go to a BA branch. ATMs do not accept cash deposits in Colombia. The account provides two free withdrawals and one free balance enquiry per month, as required in the terms of the tender.

Box 1: Account opening for Familias recipients

The mass account opening process organized by Union Temporal (BA plus Assenda) took 18 months and was divided in phases: Phase 1—460,253 recipients in 38 municipalities; Phase 2—939,125 recipients in 176 municipalities; and Phases 3 and Phase 4—1,180,135 recipients in rural municipalities. To start the process, Assenda retrieved ID information from Acción of all recipients and validated it (30 percent in average needed corrections). Then it sent a notice to the recipients requesting their presence at an account-opening event. Predetermined groups were gathered in large venues at specific times and dates. At these venues, recipients lined up with their IDs to receive the starter kits (personalized debit card, temporary password, the bank contract, a list of payment points, and a manual on the use of the card), have their fingerprints scanned, their picture taken, and sign the contract. Immediately after the processing they were taken to a lecture on basic features of the account, how to use it, and how to use the card and the call center. These gatherings were repeated in nearly 450 municipalities due to problems such as recipients not showing up. In a few places, Assenda repeated the process five times. By December 2009, 1,340,856 accounts had been opened (87.5 percent of the target families by that date).

Although there were, at the time, regulations permitting simplified account opening procedures (e.g., exempting signature, biometrics and picture), BA decided not to adopt them. According to Assenda, if the simplified procedures had been adopted instead, the mass account opening would have been 30–40 percent less costly. With the chosen process, each new account opened cost an average of 9,900 pesos. Moreover, the reason for using biometrics is not clear, given that it is not used for transaction authentication.

2.2.1 Evaluation of the scheme

The most obvious downside of scheme is cost. From an average fee of 4,000 pesos plus VAT (excluding the contract with BA) for the branch-based payments through 2001–2008, the program suddenly faced a fee four times higher. Even compared with the highest fees in the previous period (8,000 pesos to BA and 10,345 pesos to Banco Popular in 2008), the financially inclusive scheme during these two years cost in average 77 percent more than the previous highest fees,²⁶ and represented approximately 17 percent of the average transfer. The bulk of the

²⁴ For instance, to respect cultural and social arrangements of indigenous communities, an agreement was reached not to shift the payments to an account-based scheme for this group.

²⁵ Servibanca is an independent ATM network. See www.servibanca.com.co

²⁶ It is not possible to make a precise comparison, as we did not have access to the breakdown of fees paid to each provider from 2001 to 2008.

fee was to cover the cost of the account opening process, which required complicated logistics and back office procedures.

On the positive side, the shift to the present method has not negatively impacted Acción's human resources and operations, and there are positive political and social impacts from adopting this scheme. First, the potential to use the accounts as an instrument to achieve full financial inclusion and increase convenience to recipients are seen as a plus by most relevant players. Interviews with Acción Social and BDO suggest that the higher costs today may be considered an investment that could potentially pay out, although it is not clear how or when, and BDO seems more optimistic than Acción.

Our demand-side research also suggests that the financially inclusive method has been well received by beneficiaries overall. According to a study,²⁷ the greatest advantage is the reduction in the time recipients spend to get their cash—almost half the time it took in the previous scheme. Transit time is also reduced, but not as drastically. Urban beneficiaries saw value in the savings capability, although there is little evidence they are taking advantage of it. Some problems were noted, including failures in the account opening process; inconsistencies in the Sisben database; difficulties recipients had solving problems with the accounts; and the limited capacity of Assenda's call center. Also, some payer merchants require minimum purchases from recipients to release the grants.

Recipients continue concentrating withdrawals on the day of the deposit and withdrawing the totality of the grant. This perpetuates long queues and waiting times, not to mention the strain put on the distribution network. This behavior is justified in part by the fact that the card cannot be used for debit purchases or any other transactions outside the Assenda network, which limits the ability of recipients to change their transactional profile and use the purchase functionality while reducing withdrawals. This decision was based on cost from Assenda's side (it would cost more to offer Visa/Mastercard and use switching services from third parties). There is no technical reason why this network cannot be linked to the bank switches. Also, Acción is concerned about ensuring cash is always available at all payment points from the day the grant is credited to the recipient's account and therefore is suspicious about using merchants as bank agents offering partial withdrawals. (There are no hard data on the occurrences of lack of liquidity.)

Adding to the limitations of the card and the network, there is a widespread perception that behavioral biases and education also dictate transactional behavior. A frequently cited (but not necessarily frequent) problem is recipients covering their cards with plastic or other materials to protect them, making them useless. There is evidence that familiarity with the financially inclusive payment method has increased, nonetheless. For instance, Assenda's call center receives an average of 200,000 calls per month. The call logs indicate that failed transactions due

²⁷ Centro de Estudios sobre Desarrollo Económico (CEDE) 2010. *Evaluación de la gestión y la operación de la bancarización a través del programa Familias en Acción*. CEDE, Universidad de los Andes.

to wrong passwords reduced from 70 percent in mid-2009 to 20 percent at the end of 2010. Last, ineffective communication and distortions in the information provided at payment points and by local program officers may have an influence as well. See Section 4.

2.3 Next phase—new tender

The contract with Union Temporal, which expired in February 2011, was extended until the last payment of 2011. Acción negotiated a new fee given that the upfront costs with account opening were over. The current flat fee (the same in all municipalities) is 9,600 pesos (11,136 after VAT) per payment. This is still 20 percent higher than the fee Acción was paying for BA to do the cash payments in early 2009 (8,000 pesos plus VAT) when the account-based scheme started. The division of the fee income remains the same: 75 percent to the bank and 25 percent to Assenda. Again, Acción Social has not had access to a cost breakdown by the payers.²⁸

The contract extension will give Acción time to gauge interest from private banks in the upcoming tender. The terms of the new tender are likely to take careful consideration of the results and costs of the present scheme and the findings of the demand-side work. The main objective of the bid is to reduce costs and establish differentiated fees for cash payments and financially inclusive payments. Acción intends to generate competition among private banks, but has stated it will not subsidize the costs of opening accounts should another bank win the bid. Acción also plans to make four payments per year instead of six and increase the grant validity period (for cash payments) from 20 to 90 days. This measure is expected to reduce the costs of fees by about 45 billion pesos per year, or about 3.06 percent of the total disbursed in 2010.²⁹

Table 8 summarizes Acción's priorities when choosing a payment scheme today, given the experience so far with several different payment methods. Maximizing additional developmental benefits is the top priority, which is closely related to the priorities of promoting dignity and minimizing time and costs for recipients. The main purpose of the upcoming tender is clearly reducing program costs (as the current costs are considered very high), but this is not pursued at the expense of the priorities expressed in Table 8. It is also interesting to note that leakage in the grant payment ceased to be a concern for Acción after the implementation of the account-based scheme.

²⁸ Acción had prepared itself to immediately return to the pre-2009 agreements with the seven banks, were a plausible agreement with Union Temporal not reached for 2011 (Report *Familias en Acción*, second semester 2010, IADB).

²⁹ Report *Familias en Acción*, second semester 2010, IADB.

Table 8: Objectives of Acción Social when choosing payment arrangements

Objective	Order of priority
Maximize additional developmental benefits to the recipient	1
Promote the dignity of the recipient	2
Minimize the time and cost taken by the beneficiary to collect the transfer	3
Minimize total delivery cost to government	4
Minimize time to scale up a new or expanding program	5
Minimize leakage (loss due to fraud, misappropriation, failure in payment process)	Not applicable*

*According to Acción Social, this objective is no longer valid, as leakage has been brought nearly to zero (interview on 15 April 2011).

From the bank's perspective, some aspects in the current contract could be improved. First, the cash-based payments are recognized by Acción only when the recipient claims the cash. If the recipient does not claim her grant, the bank does not receive the fee despite having already incurred expenses. The bank also considers that the payment device should evolve away from cards, due to the related inconveniences and costs (e.g., maintenance, replacement). Other devices that could be more cost-effective and more convenient to recipients, such as mobile phones, could be tested instead. Last, Acción requires 100 percent of the benefits to be available from the date the deposits are done, but this implies additional costs with cash transportation. The bank affirms that the payments need be spread out more during the payment month, to avoid lack of cash at payment points, particularly at merchants.

3 Supply side findings

3.1 Social payments in BA

BA has been paying Familias benefits in cash since 2001, not long after it was created in 1999. Familias is the largest cash program at BA. BA conducts cash transfers for five other programs operated by Acción Social, including Guarda Bosques; it also performs this service for programs of other agencies, such as pensions. A specialized department with 11 staff handles this business and is responsible for a significant source of income for the bank. The fees received from Familias alone represent about 60 percent of the total income from commissions (mainly government commissions) received by the bank, and these represent 23 percent of total income. Making government transfers is an important business in terms of revenue, but it is also a legal duty, as it is an instrument for public policy. This business is particularly important to balance less profitable operations in which the bank engages by force of law, such as low-cost small agricultural loans. Table 9 reflects the bank's view that fees from government are essential to its social transfer business and for its overall finances.

Table 9: Objectives in making social transfers (interview with BA)

Objective	Priority (1= highest)
Gaining new clients	2
Earning fee revenue from government	1
Winning other profitable business from government	1
Making a profit on each recipient account	2
Corporate social responsibility	1
Government pressure/mandate	0
Generate extra income to enable the bank to leverage other less profitable businesses such as agricultural loans	1

Until 2009 the bank used to make around 60,000–100,000 Familias payments each cycle. Since the beginning of the 2009 contract, the bank has made an average of 1.4 million payments per cycle, and it has opened more than 2.4 million new accounts in 18 months. In 2010, it processed 14,698,363 grant payments. This required an investment of approximately US\$3 million to upgrade the core banking system.

Table 10: Payment cycles of the account-based scheme

Period	Unbanked recipients		Banked recipients		Recipients total	Withdrawals*
	Number	percent	Number	percent		
05/22/2009–06/17/2009	1,379,505	76.15	431,958	23.85	1,811,463	431,958
07/22/2009–08/11/2009	1,786,821	78.66	484,628	21.34	2,271,449	484,268
09/04/2009–09/29/2009	1,682,322	65.49	886,512	34.51	2,568,834	886,512
10/28/2009–11/17/2009	1,431,822	57.62	1,053,214	42.38	2,485,036	1,053,214

11/04/2009–12/28/2009	1,438,502	52.52	1,300,291	47.48	2,738,793	1,300,291
03/16/2010–04/09/2010	1,059,750	42.27	1,447,267	57.73	2,507,017	1,447,207
05/04/2010–05/24/2010	811,861	36.72	1,398,901	63.28	2,210,762	1,398,268
06/23/2010–07/13/2010	757,834	30.52	1,725,088	69.48	2,482,922	1,725,088
08/10/2010–08/30/2010	393,420	16.01	2,063,920	83.99	2,457,340	2,027,050
11/03/2010–11/23/2010	332,576	13.52	2,127,262	86.48	2,459,838	2,259,471
12/14/2010–01/05/2011	306,803	11.89	2,273,681	88.11	2,580,484	1,638,747
01/15/2011–02/07/2011	209,888	8.90	2,149,711	91.10	2,359,599	2,246,639
04/25/2011–05/16/2011	203,264	9.23	1,998,296	90.77	2,201,560	2,160,770

* Withdrawals within 20 days of the credit.

3.2 Strategy for Familias recipients

Familias is not BA's first experiment with low-cost savings accounts. Savings accounts have been opened to make transfers for Guarda Bosques, another program of Acción. The Guarda Bosques initiative failed, according to BA, because the recipients—small farmers—preferred having the cash in hand than in a bank account. Grant recipients are, nonetheless, a new client segment for BA, and no specific commercial strategy has been developed to date. No other product besides the savings account itself is actively marketed or has been customized.

Reportedly, the bank's current vision is to look at the Familias recipients as full bank clients and evolve from seeing the government as the main client. This would require a specialized commercial strategy to adapt or create banking products for this clientele so they can become, in the long run, a sustainable, profitable segment, without having to rely on the fees paid by Familias. This is clearly not the case today. Offering the G2P accounts is not a profitable standalone business for the bank. The bank depends heavily on government fees to avoid making a loss on those accounts. In addition, the fees not only cover the costs of the G2P accounts, but they are also very important as extra income for the bank as a whole.

The reason behind the current corporate vision and these accounts in the first place is less an interest in G2P recipients as potentially profitable clients and more the desire not to lose the Familias contract, given its importance to the bank's finances. Moreover, savings are not a crucial funding source for the bank. They fund only 26 percent of the assets, and nearly half of the total savings comes from noncommercial sources, such as a government program (Finagro), an apex for the agricultural sector, and judicial deposits.³⁰

With a more sophisticated commercial proposition for clients, the bank would be better prepared for the upcoming bid and less likely to lose this important contract. The bank understands the importance of adopting this new corporate vision, otherwise it risks losing the grant payments. BA does not have extensive experience with savings accounts, but it does have experience with low-income rural borrowers. This may be a plus in building a business case around G2P clients.

³⁰ Judicial deposits are restricted assets placed on deposit with the court and held in judicial escrow relating to certain legal proceedings pending legal resolution.

Table 11 reflects the opinions of the bank with regard to the attractiveness of Familias clients, which are clearly influenced by the current context.

Table 11: BA’s opinion on attractiveness of Familias clients (1 = completely agree; 5 = completely disagree)

a. The accounts of social transfer recipients are simply not profitable to us considered on their own (i.e., Level 1).	5
b. The accounts of small-balance savings accounts, such as those of transfer recipients, can become profitable over time if customers grow their balances.	1
c. Our business case for small-balance savings rests on cross-selling other services to customers.	2
d. We actively cross-sell other products to holders of transactional/savings accounts.	2
e. The internal transfer interest rate used by our Treasury on retail savings balances reflects adequately the market conditions for the bank to raise funding of this type.	-
f. The business case for our taking small-balance savings is not based on the financial return of the customer or the account at all.	4
g. Our social transfer recipients receive similar range and quality of services to those offered to other retail clients of their income.	1
h. We understand well the business case of G2P accounts.	-
i. We consider the government to be our primary client and not the end beneficiaries.	3
j. We understand how to cross-sell other products to this customer base.	1

The 2.4 million new accounts are no-frills savings accounts (“electronic accounts”) created by a 2009 regulation,³¹ which permitted simplified opening procedures (as noted above, the bank did not take advantage of this flexibility). The main features are set in the regulation and in the terms of the 2008 tender: two free withdrawals per month and one free balance inquiry.³² To put this in perspective, Table 12 compares the electronic accounts with the traditional savings account offered by BA to the general public.

Table 12: Comparison between G2P accounts and nearest equivalent account

	Product for transfer recipients	Nearest equivalent account
Name of product	Electronic savings account	Traditional savings account
Minimum opening balance	None	60,000 pesos
Minimum balance	None	10,000 pesos
Documents required to open an account	ID	ID, proof of income, employment, commercial and family references
Is an ATM/debit card provided? Are checks provided?	Assenda debit card. No checks.	Debit card with Mastercard. No checks.
Restrictions if any on balance or transaction size in account	By regulation, withdrawals limited to 2 minimum wages per month (approx. US\$581.92)	No restrictions
Interest rate paid	From 1 peso: 1 percent effective annual	From minimum balance: 1 percent effective

³¹ Decree 4590/2008 and Decree 1349/2009.

³² The bank also provides unlimited balance inquiries through its automated customer service number.

		annual
Fees		
Monthly fees	No maintenance fee	Maintenance fee: 7,340 pesos
Transactional	<p>After second free withdrawal:</p> <ul style="list-style-type: none"> - Bank's ATM: 1,320 pesos - Servibanca ATM: 1,320 pesos - BA Agents: 1,500 pesos - Branch cashier: free - Assenda merchants: 1,600 pesos <p>After first free balance enquiry:</p> <ul style="list-style-type: none"> - Bank's ATM: 1,320 pesos - Servibanca ATM: 1320 pesos - BA Agents: 1500 pesos - Branch cashier: free - Assenda merchants: 1600 pesos <p>Deposits: free in any channel</p> <p>Balance enquiries by phone (automated service): free, unlimited</p>	Same price schedule, but all transactions are charged
Special incentives	3 free transactions, no maintenance fee, no minimum balance	No
Channels for origination of new accounts	Massive account opening events (described above)	Branches
Cash in channels	Branches	Branches and 300 BA agents
Cash out channels	ATM, branches, BA agents, Assenda merchants	ATM, branches, BA agents
What is the main segment targeted with this product?	Familias en Acción beneficiaries	Low, middle-income customers
What are the measures of success for this product?	Target is increasing average total balance in these accounts to around 20 percent of the total grant transfer, or 20 million pesos.	Profitability

3.3 Attractiveness and profitability of Familias clients

The business case for banks to offer services to social transfer recipients can be defined in five levels:

- Level 1—account level (each account is sufficiently profitable)
 - a. Level 1A—with subsidy from the government commission
 - b. Level 1B—without subsidy from the government commission
- Level 2—client level (each client relationship is sufficiently profitable)
- Level 3—portfolio level (the whole product or segment is profitable)
- Level 4—strategic (the bank earns direct financial return in other ways, e.g., other business with the government)
- Level 5—mandate (the bank's license or existence depend on doing this, regardless of the financial return)

BA has not conducted in-depth analysis of the transaction profile, the product portfolio, or the general profitability of the clients or the client segment, mainly because of the newness or immaturity of this line of business and the difficulty and costs involved in extracting and analyzing data from the bank's information systems. The systems do not offer proper tools to facilitate such analyses. Despite the lack of supporting data, there is an understanding that the account level is not profitable without the fee income from Familias, given that account balances are tiny and the transactional profile does not generate enough transaction fees. The bank hopes that these accounts can become profitable in the future, but that would require increasing their account balances and changing their transaction profile substantially, which would in turn require different communication and marketing efforts and probably different products as well. This would take time. In sum, Level 1 attractiveness is proved at the moment only as Level 1A, that is, with the subsidy from the government fee.

The available data do not allow a firm conclusion regarding the client and the segment levels (levels 2 and 3). It would be necessary to gather more information about the float value of the average balance in the accounts, the transaction pattern, fees received, and unitary transaction costs calculated for each type of transaction. Information about the results from other products used by each client would also be necessary. The analysis of the segment would require data on the transactions and product use of the Familias segment as a whole. The bank believes that the client level is not yet profitable as the product strategy is still underdeveloped and clients are just beginning to experiment with formal financial services.

The focus of the bank so far has been on making the most out of the fee income (complemented by some income from investing the grant funds when possible) against the costs involved in making the payments and now in maintaining the new accounts. In fact, the fees are sufficient to prove the business profitable and generate enough extra income for the bank. In addition, doing well in the Familias payment business helps the bank get other similar contracts with the government (Level 4), although the direct financial return of such businesses was not disclosed. Level 5 does not seem to apply to BA as the grant payment business is tendered and not directly related to the bank's mandate or license.

3.3.1 Level 1: Individual account level

In April/May 2011, 90.8 percent of the 2,201,560 Familias payments were done through deposits into the savings accounts and 8 percent were done in cash. Those receiving the payments through their electronic accounts made approximately 2,160,770 withdrawals in that period.³³ According to BA, approximately 70 percent of the grant payments were done at ATMs (the breakdown between its own ATMs and shared ATMs is not available),³⁴ 16 percent at Assenda merchants, 10 percent at branches and extended cashiers (no breakdown between these two is available), and

³³ More exactly, in the 20 days following the grant payment.

³⁴ In reality, BA does not have own ATMs. The "own" ATMs are those inside the bank branches, but are managed by Servibanca and cost less than those in other locations, also managed by Servibanca at a higher cost per transaction for the bank.

4 percent at the 292 agents. The average number of monthly balance enquiries was not disclosed. The cost of each electronic withdrawal or balance enquiry and the fees charged from the client vary according to the channel (see Table 13).

Table 13: Transaction costs and fees charged to client

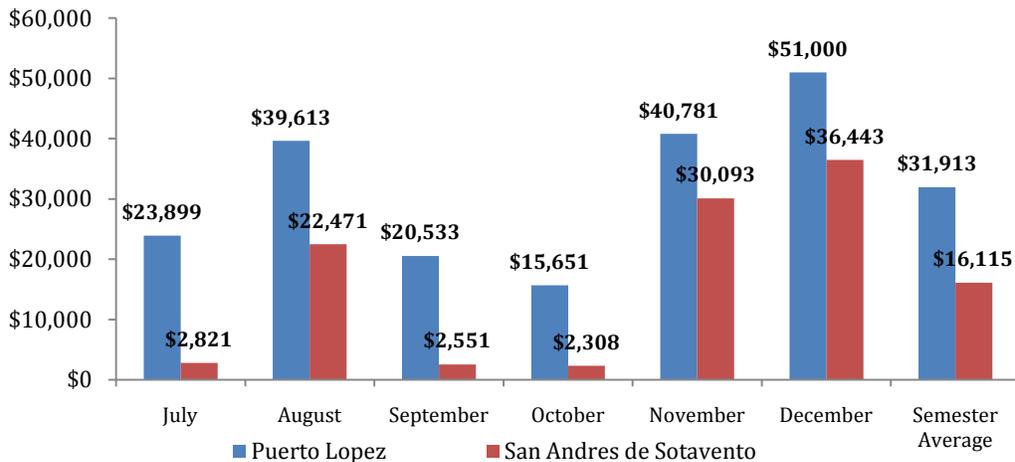
Transaction	Cost	Fee to client*
Withdrawals		
Bank ATM	600	1,320
Shared ATM	1,100	1,320
Branch	3,700	0
Merchant	Not disclosed	1,600
Agent	Not disclosed	1,500
Deposits		
Branch	Not disclosed	Free
Agent	Not disclosed	Free
Balance enquiries		
Bank ATM	600	1,320
<i>Shared ATM</i>	1,100	1,320
<i>Branch</i>	3,700	Free
<i>Merchant</i>	Not disclosed	1,600
<i>Agent</i>	Not disclosed	1,500
Unlimited automated phone service	Not disclosed	Free
Debit purchases (not yet offered)	-	-
Grant payment at extended cashier	5,500	Free

*After the free transactions

The available data do not permit estimating the financial result from client transactions. But it is interesting to note that, were all the 2,160,770 withdrawals in May 2011 done in shared ATMs (the second cheapest channel) and the clients did not do any other monthly transaction besides requesting a balance inquiry (at ATMs) for each withdrawal, the bank would need to generate 4.7 billion pesos just to cover the cost of the transactions. Without fee income from transactions, this revenue would need to come from the investment of the account balances. As actual income from the tiny account balances is very limited, these accounts could easily be proved to be a loss for the bank, at Level 1, without the grant payment fee.

BA calculates that, to be financially attractive at Level 1, these accounts need to have an average balance of 10 percent of the disbursed grants. Whether this calculation is precise or not (and while the demand-side research confirms that most recipients are not using the electronic accounts to save), some data suggest that account balances might be growing in some areas (in this case, Puerto Lopez and San Andres de Sotavento). The increases seem to be seasonal and suggest that some families may be using the account to manage anticipated shortages of cash flow, such as lumpy school-related expenditures.

Figure 1: Average balances (2010) from BDO’s PPCA baseline survey



Source: BdO baseline³⁵

Even if they grow in some periods, the average balances pictured in the chart are much lower than the average balance in savings accounts offered by BA to the general public (654,383.31 pesos for the traditional savings account and 4,337,891.67 pesos for the active savings account).³⁶ According to BA, the average balances in the standard accounts provide comfortable room for profitability at Level 1, which is not true for the Familias accounts. Moreover, the standard accounts pay interest only for minimum quarterly balances of 300,000 pesos, while the electronic savings accounts offered to recipients remunerates any positive balance. The income from investing the float and the unpaid or to-be-paid grant funds is not available, but it is not a considerable income according to BA.³⁷

BA roughly estimates that the cost of maintaining each account is 5,369–6,622 pesos per month, including a weighted average cost of the free transactions (around 1,430 pesos per transaction) and the fees paid to Assenda to process the related card transactions and operate the call center (a fixed value of 2,481 pesos per recipient, according to BA). Each new account cost 7,159–12,529 pesos (an average of 9,900 pesos), including logistics, production of the cards and starter kits, and other operational and administrative processes. The approximate total cost of opening 2,419,461 accounts was then 24 billion pesos according to this estimate, or 0.83 percent of the grant disbursement in 2009–2010.

One should also consider the bank made an investment of US\$3 million to upgrade its core banking system, since the previous one was not capable of hosting 2.4 million new accounts. The bank had only 3.5 million account holders before receiving the recipients, and only 300,000

³⁵ The BDO baseline is a 2010 quantitative and qualitative study of BDO’s Pilot Program to Promote a Savings Culture among Poor Families (see Section 4 for full description of this study).

³⁶ The difference between these two savings products is how interest is accrued (daily or monthly).

³⁷ Acción Social has four accounts with BA, which are used indistinctively to transfer the program funds. One is an interest-bearing savings account and the other three are current accounts that do not pay interest.

cardholders. This expense was amortized in two years, generating an annual expense of US\$1.5 million (approximately 2.7 billion pesos) in 2009 and 2010.

As the bank gradually moves from fixed to variable costs, it would be easier, in principle, to achieve positive results with the electronic accounts. But from the available information it can be concluded that the accounts are not attractive as a standalone business, i.e., at Level 1B. Excluding the fee income from *Acción*, there is not sufficient client income to cover the relatively high costs and the investments made. The average balance is still very small and the number of transactions tends to stay within the three free monthly transactions. Transaction costs are affected by the limited network, the fact that debit purchases are not yet commonly used (and not offered outside *Assenda's* network), and the high third-party transaction fees.

Regarding the fee received by the program, were the 2,160,770 withdrawals done in May 2011 the only transactions besides one balance enquiry per each withdrawal, the bank would have around 16.4 billion pesos surplus from fee income for the account-based payments. In a scenario where all cash payments are done through extended cashiers (cost is 5,500 pesos³⁸ and fee is 9,600 pesos), the fee surplus would be around 830 million pesos in that month. Putting the two surpluses together, there seems to be enough room to cover costs of the grant payments and the loss in the accounts and still generate extra revenue for the bank.

3.3.2 Level 2 and 3: Client and segment levels

BA has not developed a commercial strategy for *Familias* clients and has not conducted in-depth analysis of the product portfolio of these clients. By crossing information in its systems, the bank has found that 7.28 percent of *Familias* recipients already used other bank products when they opened the electronic accounts (see Table 15). Most of these recipients had a traditional savings account and some sort of loan. No information is available on the revenue from these products and how it contributes to client profitability. The bank is not able at present to affirm whether it has achieved profitability at the client level. It believes it has not, but that there could be a case at the client level by cross-selling products with which it has experience (e.g., small agricultural loans). However, it affirms the learning curve is long and is threatened by the fast approaching tender for *Familias* payments.

³⁸ The cost of cash payments includes temporary staff hired to do the payments, travel expenses, cash handling, insurance, and other unexpected issues of logistics. The main item is cash transportation, accounting for 90 percent of the total cost. Since most payments are now done through deposits, this item has lost some relevance. However, cash transportation is still necessary for account-based disbursements, as recipients tend to withdraw the totality of the grant as soon as it is deposited, resulting in a concentration of cash-out transactions. According to BA, the cost of moving cash to make *Familias* payments is 10 percent less today compared to 2010. The total cost of moving cash to make *Familias* payments is not available. The bank's strategy to reduce cash handling costs is increasing the use of merchants and ATMs to discourage withdrawals in branches and extended cashiers. BA does not move cash to the merchants – as the grant disbursement is integrated into the merchant's own cash flow—or to the ATMs—as they are managed by *Servibanca*, not by BA.

Table 14: Other products used by Familias account holders

Type of account	Number of Familias clients	Percentage of Familias clients
Current account	346	0.01
Traditional savings account (interest accrued monthly)	85,266	3.52
Active savings account (interest accrued daily)	8,752	0.36
Time deposits	2,837	0.12
Credit	79,006	3.27

*Relative to 2,419,461 beneficiaries who opened accounts.

Also, the bank has no estimates about Level 3, or the segment level, as it does not conduct separate profitability analyses on each client or product segment.

3.3.3 Levels 4 and 5: Strategic and mandate

The bank is not able to quantify how much financial return from other businesses results directly from doing Familias payments (Level 4), but it affirms this level of attractiveness exists and is valid. Level 5 is not applicable to BA since doing the payments is not part of the mandate of the bank, which nonetheless is committed to government businesses and engages in certain operations due to its mandate.

3.3.4 Concluding remarks on the business case for BA and Assenda

Although achieving positive financial results at the account, client, and segment levels seem difficult without the fees paid by Familias, as a whole the business of making Familias payments has been a very important source of income that helps BA subsidize other less profitable operations. The fees cover the costs of the grant transfers but also the cost of the accounts, so the bank avoids losing money on these accounts until they become sustainable as a standalone business. In addition, the fees are sufficient to produce relevant extra revenue.

The shift to savings accounts from cash payments has increased complexity of the above analysis and may have reduced the overall fee revenue that cross-subsidizes other bank operations. Managing savings accounts that offer free transactions introduces costs that, if not compensated with operational efficiency and other income sources, can change the business case for the bank. Besides, such abrupt expansion of the customer base puts pressure on management, human resources, and systems. In terms of commercial strategy, the recipients are a new market not only because until 2009 bank made transfers following a remittance model, but also because the bank is specialized in rural and communal credit, not savings or electronic payments. The distribution network is also limited and relies on relatively expensive third-party services. The bank has just started looking into the recipients as clients. Its interest in improving its approach is strong since the bank cannot afford losing the grant payment business, even after factoring in the higher costs of the financially inclusive method.

Last, it is also interesting to consider the incentives for Assenda to engage with social payments. Assenda's participation is crucial for the bank to offer electronic payments, as the bank itself has

limited experience with logistics and a very limited network.³⁹ The main attraction for Assenda is the fee income per transaction (grant withdrawals and electronic purchases). The more transactions, the clearer the business case for Assenda. Hence, Assenda is preparing to extend its network to discourage recipients from withdrawing the entirety of their grants⁴⁰ and instead making debit purchases using their cards. As evidenced in the demand-side research (Section 4), recipients have not been using this function. Assenda believes that one of the reasons for this is recipients' fear of bank fees. (The bank, in opposition, argues that it is necessary to charge transaction fees to make the savings account profitable.)

³⁹ The bank has plans to transform all Assenda merchants into agents that can offer several banking services, increasing its income from other transactions and services. The challenge is to make the business attractive for the merchant, who mostly have cash surplus, and hence little interest in receiving payments and deposits (but maybe more interest in disbursing loans).

⁴⁰ Assenda has considered the use of mobile phones as a transaction device, but one obstacle is the high turnover of phone numbers in this client segment. According to a survey done by Assenda, over 40 percent of the numbers change every month, making it difficult to make this a primary transaction channel. With regard to increasing the distribution network, Assenda points out that the unexpected high costs of the account-opening process left little room for investing in this during 2009 and 2010.

4 Demand-Side Findings

4.1 Sources and summary of findings

The demand-side research found that the move to the account-based payments has been—for the most part—well received by beneficiaries. It has increased convenience for them substantially. However, there is little evidence the accounts are being used for savings purposes or as an entry point for other financial services. Familias beneficiaries do save, but mostly in the form of cash in the house or livestock. The majority knows they have a bank account and can save there, but many reasons seem to discourage the use of this savings instrument. Distorted messages from Familias and BA seem to play a role in this regard. While one study focused on urban settings suggested that beneficiaries value the possibility of saving in the account, studies focused on beneficiaries from smaller municipalities indicate that this is not a priority.

The main sources of information for the demand-side analyses were as follows:

- A 2009–2010 study commissioned by the InterAmerican Development Bank and implemented by the Centro de Estudios para el Desarrollo Económico (CEDE) at the University of the Andes, which examined the strengths, weaknesses, efficiency, and efficacy of alternative government grant payment mechanisms in six major cities: Bogotá, Pasto, Sincelejo, Monteía, Valledupar, and Cali.
- A 2010 quantitative and qualitative baseline study of BDO’s Pilot Program to Promote a Savings Culture among Poor Families (PPCA), which used a range of interventions to encourage formal savings among 49,350 Familias beneficiaries in 12 smaller municipalities. The research shows that after some months participating in PPCA, the beneficiaries seem to have changed their attitudes and perspectives toward savings, but not the way they manage their accounts.
- Original research specially designed for this project. This involved eight focus groups and five in-depth interviews with 74 beneficiaries in four municipalities (eight leader mothers). Building on the baseline PPCA study, all participants were PPCA participants.

4.1.1 *The experience with the account-based payment scheme*

Cumulatively, this research indicates that the move to the account-based grant payment scheme has been viewed by recipients as a positive step forward. However, it seems that most beneficiaries prefer being paid via the savings account due to convenience rather than the desire to save in the accounts. Long lines are less common now, and recipients in areas with more than one payment point can choose where to withdraw their grants. This finding is in line with CEDE’s research, which measured dramatic reductions in waiting and travel times in comparison to the cash-based payments (not much difference from the 2008 prepaid card method).

Some recipients have, however, mentioned it can take about one week for the grant to be available in their accounts (from the programmed payment date). This is not in line with BA’s and Acción’s understanding of the program operations, but the focus groups registered several accounts of beneficiaries saying the money is often unavailable for another week.

Even though most are happy with the bank-based payments, some prefer cash payments primarily due to challenges of using an ATM. They prefer dealing with and trust more a person than a machine. They are also suspicious about being taken advantage of by other people who perceive they do not know how to use the ATM, and appreciate the fact that questions can be asked and answered when the payment is done by a person. But it is encouraging to note that recipients are slowly learning how to use ATMs and overcoming their initial struggles. In the beginning they would take a relative or friend to the ATM to help them withdraw the grant. Some shopkeepers hosting ATMs were also taking advantage of this unfamiliarity with ATM, by charging beneficiaries to use them, requiring minimum purchases, or helping them make the withdrawal for a fee.

4.1.2 *Using the accounts for savings*

With regard to the use of the accounts for savings, our new research found few beneficiaries considering this function to be a major feature, despite the fact that they do save in some other form. However, CEDE’s study found that beneficiaries in large urban areas see the savings capability as a major advantage of the bank-based payment scheme. These two results together seem to indicate that, even if some appreciate the savings functionality, they have not taken advantage of it. Or it may indicate that residents of large urban areas find this feature more attractive than those in small cities. They may be more comfortable with banks, and may even have had a bank account before the shift in the Familias’ payment method.

Research shows that instead of using the account to save, most recipients withdraw the entire grant at once. In the PPCA baseline, 91 percent of the recipients reported this behavior, and there was little difference across different treatment groups, i.e., the type of savings incentive received during PPCA had no influence on how recipients withdrew the grants.

Table 15: How often do you withdraw the entire grant value at one time?

Answer	Percent of Sample
Always	91
Almost always	5.3
Sometimes	2.8
Almost never	0.9

Many reasons why beneficiaries withdraw their grant in full were identified, but it is not possible to conclude which ones are most important:

- a. According to the PPCA baseline, most recipients understand they are paid through a bank account (88 percent) and can leave part of the grant there (77 percent). However, they do not fully understand the features of the account. Many believe no other source of fund besides the grants can be deposited. Understanding was low even among those who participated in the financial education sessions.

- b. CEDE found different results: most recipients in large cities (65 percent) know other funds can be deposited. More than half know they can leave the grant there for two months, but almost the same number believes they will lose the funds if they do so.
- c. There is significant discomfort and suspicion around bank charges. Recipients do not understand the charges and are not able to correct errors by the bank (e.g., reportedly the bank was charging for the first balance inquiry, which is supposed to be free).
- d. Previous bad experience with banks, particularly regarding balances —“dst” due to bank fees, may be an important cause of distrust in banks.
- e. Many recipients participating in Familias for many years feel they do not have full discretion in use of the grant. They have internalized the message that the grants should be used for specific purposes, not for savings.
- f. Some recipients simply say they need the money too much to save it. Others say that if they could save, it would be too little and hence embarrassing for them to go to the bank.
- g. Some recipients think they will lose eligibility to Familias if they accumulate money.
- h. Others point to high transaction costs (mainly transportation) as the reason not to save in the bank.

Distorted messages from Familias and the bank regarding the use of the accounts for the grant payments seem to contribute to the confusion and misunderstanding expressed by recipients. Particularly, the push for savings accounts is a novelty in the program, a departure from the historical message from Acción that grants should be used in full to cover expenditures with the children, and there was not enough time to refine the messages passed to beneficiaries.

With respect to financial education in one of the two municipalities where this intervention was used, there was very low attendance at the teaching sessions, suggesting that there is room for improvement, such as adding experiential learning to help beneficiaries understand the accounts. Also, allowing and/or promoting frequent free balance checks (by phone, for instance, as this service is already available and it is free in the case of BA) can enable beneficiaries to track and understand how their accounts work. Findings from the PPCA baseline suggest that over time financial incentives, such as raffles, may serve as a more effective motivation for savings.

4.1.3 Current savings habits

The PPCA baseline found that 72 percent of beneficiaries were saving (i.e., storing value in some form or another, for some use in the future), but only 3 percent of them were saving in a formal financial institution. Most savings were happening in the house, for convenience. However, this convenience also works the other way: money can be spent more quickly on less important items. When the savings is toward a specific goal, many instead give their money to trusted people. Raising animals is considered the best way to save and provide useful by-products, such as eggs and milk.

Most see banks as safe but are afraid of fees. Some use financial cooperatives or savings groups or hold financial assets in loans outstanding because of potentially high returns, although these are considered more risky.

Women tend to save for emergencies and for children's tertiary education. PPCA found that across the surveyed families, consumption smoothing savings was on average 40,181 pesos per family, or the equivalent of just two days of average household income. In areas where banks are operating, a few have opened savings accounts (not linked to Familias) to keep some of their savings in special children's accounts.

While saving in the payment account is not very common, there were some increases in average balances in the sample, which suggest that some families may be using the account to save in anticipation of cash flow shortages ahead. BDO's baseline shows average balances increasing in November and December. Families may be preparing for lumpy, school-related expenditures in January.

4.1.4 The accounts as gateways for other financial products

It does not appear that the financial inclusive payment scheme has served as a gateway for beneficiaries to access other financial services, except among recipients receiving financial education within the PPCA experiment, who appear to be taking up insurance more than others. Among these recipients, about 43 percent of respondents were using either funeral or life insurance, both of which are very uncommon (5 percent) in other areas.

5 Strategic policy insights from Colombia

The push for building financial inclusion into Familias en Acción comes from BDO, given its mandate to foster financial inclusion as part of the government's poverty reduction policy (Red Unidos). BDO saw Familias as an obvious platform to advance its goals, and it believes savings accounts could serve as a gateway to a wider range of financial services. Red Unidos sees financial inclusion as one of nine dimensions to combat extreme poverty in the country.

Familias does not have a financial inclusion mandate and no official position with respect to the interplay between government transfers and financial inclusion. On the other hand, Acción is interested in increasing the efficiency of grant payments to be more convenient and reduce costs for recipients. Hence, electronic payments have a strong appeal, as they typically reduce travel and waiting time for recipients and lower levels of leakage and fraud. The downside of the current payment method is high cost. The cost of doing each payment today is approximately 10 percent of the value transferred. This is high compared to previous payment arrangements and also compared to some other country experiences.

Acción is not convinced that the significantly higher costs will pay off and that beneficiaries are actually able to take full advantage of the savings accounts where they receive their grants. In addition, there is internal disagreement over whether financial inclusion, particularly saving part of the grant, helps or goes against the developmental objectives of the social transfer program.

Since most payees are already receiving their grants through the accounts, instead of debating the pros and cons of the new method, Colombian authorities seem to have moved on to search for ways to make the accounts more meaningful for recipients. They are undertaking a range of research initiatives to inform BDO's financial inclusion efforts, Familias interventions, and BA's strategy. This may be the reason why the next tender for Familias payments, planned for the end of 2011, will still require the provider to offer savings accounts, despite the goal of reducing the cost of doing the payments. There are also areas for improvement in the current set up, such as in increasing transparency of the costs faced by the bank.

It is not yet known what will happen with the recipient accounts in BA, should another bank win the next tender. Our analyses suggest that it will be difficult for the bank to sustain these accounts if it loses the fees from the grant payment business. Reportedly, the bank's current vision is to look at the Familias recipients as full bank clients, but this strategy is mainly justified by the need to keep the Familias payments. The recipient accounts are not yet financially viable without the fees paid by Acción. This is due to low account balances, low transactionality, and underdeveloped product offerings. Under the present conditions, the bank is not able to generate sufficient client income to offset the costs of account opening, free transactions, third-party services, interest payment, and investment in infrastructure, systems, and personnel. The profitability of the accounts, therefore, is proved only with the fee income. But there is still a clear case for the bank to do Familias payments even considering the increased costs (hence

reduced net profit) of the financially inclusive accounts. The fee is sufficient to provide extra revenue after reverting the loss that would be made on the accounts.

Demand-side research found that the move to account-based payments has been—for the most part—well received by beneficiaries. According to a study, the greatest advantage of account-based payments is the reduction in the time to withdraw the grant to almost half the time it took under the previous scheme. The transit time is reduced as well, but not as drastically. And urban beneficiaries also saw value in the savings capability. However, there is little evidence recipients are using the accounts for savings purposes or as an entry point for other services. They continue to withdraw their grants in full at once. This perpetuates long queues and waiting times, not to mention the strain put in the network and the costs of cash transportation. This behavior is due in part to the fact that the card cannot be used for debit purchases outside Assenda merchants. There is evidence that familiarity with the new payment method has increased, nonetheless.

Familias beneficiaries do save, but mostly in the form of cash in the house or livestock. A majority know they have an account at BA and can save there, but there seems to be many reasons why they are not using the account for savings. Distorted messages from Familias and the bank play a role in this regard.

To conclude, this report intended to answer the following research questions:

- a. Can financial institutions offer financially inclusive services to recipients on a profitable basis?
- b. Will poor recipients use financial services if they are offered to them?
- c. Is building in inclusive financial services affordable for the program?

According to the limited available data and the opinions expressed in interviews, we conclude that the case for a financially inclusive grant payment method based on savings accounts has not yet been proved entirely for the program and for the bank. Recipients have benefited the most through reduced transaction costs and increased convenience. However, the full potential of the inclusive payment mechanism has not yet been achieved overall, and is not yet understood by some of the parties involved.

With regard to question (c), research suggests that the cost of the current financially inclusive method seems very high compared to previous schemes (cash-based and prepaid cards), and maybe even compared to the experience of other countries.

Regarding question (a), the limited available information suggests that client income is not sufficient to cover the costs of the savings accounts, which are offset only by the fee income from the grant payment business, a necessary element to make the accounts profitable. Moreover, the bank's commitment to recipient accounts is justified mainly by the need to retain the payment business, which, in addition to covering the costs of doing the payments and maintaining the accounts, provides substantial extra revenue to balance the bank's finances.

Last, demand-side research indicates that recipients will not fully benefit from the accounts and will continue to withdraw the totality of their grants if the program and the bank doesn't communicate better, a more extensive payments infrastructure is not available, and more functionalities, such as debit purchases outside Assenda's network, are not offered.

Annex A: Current payment schemes of Familias en Acción

PAYMENT OPTIONS (today)	BA	
	Payment in cash	Deposit in electronic savings account
Number of recipients using this option in the payment cycle of May 2011	203,264 9.23 percent	1,998,296 90.77 percent
Number using this channel one year ago	1,188,731 47 percent	1,323,363 53 percent
Nature of authentication of client for transactions	ID	ID (in branches), debit card, password
Is a store of electronic value provided? If yes, what sort of account?	No -	Yes Electronic savings account.
How are clients enrolled for payment?	Enrollment by Familias. Payment order based on fulfillment of conditions, payment in determined dates and places	Enrollment by Familias, payment order based on fulfillment of conditions, payment anytime/date/channel after deposit is made by program
At which location can cash be accessed?	BA branches and <i>extended cashiers</i> (temporary branches)	BA branches, BA ATMs, Servibanca ATMs, Assenda merchants
What fees charged to recipient	No fees	No fees
Fees paid by scheme to provider (local currency, distinguishing between one off and ongoing)	9,600 pesos + VAT (16 percent) per payment (in 2009 and 2010 this fee was 16,000 pesos + VAT)	-
Other fees paid by the program, if any	-	-
Additional features of account, if any	-	Account is exempted from the financial transaction tax of 0.4 percent and offers two withdrawals and one balance inquiry free per month, and no checks
Is this account also available to nonrecipients? On what basis?	-	This type of account can only be offered to people registered in Sisben 1, including Familias recipients. But BA (and no other bank) has such product.

Annex B: Demand-side report

CGAP G2P Research Project: Colombia

What can we learn about financially inclusive accounts from users?

Executive Summary

The Government of Colombia's Acción Social has converted most of its grant payments for the social program Familias en Acción to electronic payments via a BA savings account. Examining the experiences of a wide range of beneficiaries, we find that the move to payment distributions through a bank account has been—for the most part—well received. It has produced dramatic improvements in convenience for beneficiaries. However, there has been little use of the accounts for savings, and opening the accounts does not appear to have been an entry point for offering and uptake of other financial services. While beneficiaries in some studies value the ability to save in the account, others suggest this feature is a low-level priority. And, very few beneficiaries in any of the studies are actually using the accounts to save.

Beneficiaries are saving, but mostly in the house or in animals instead of the bank. An overwhelming majority know they have a bank account and can save money in the accounts, but they have a wide range of reasons not to keep savings in the bank:

- There is some misunderstanding and mistrust of the fee structures associated with the account and different transactions. Beneficiaries fear their savings will be “eaten” at the bank.
- Transaction costs remain high for many beneficiaries, discouraging the frequent withdrawals that beneficiaries anticipate. It makes more financial sense from their perspective to keep the money at home, where it is more accessible.
- Some say that they are too poor to save or that the savings would be so small and needed so frequently that it would be embarrassing to keep it at the bank.
- Some seem to have internalized the messages of the program that the subsidy is meant to be spent on children's needs. Saving and investing for other or broader household purposes in part contradicts that intention.
- Beneficiaries also voice some concern that saving in their BA accounts will indicate to the program that they are capable of saving and building assets, and therefore disqualify them from receiving future benefits.

Examining the experience of beneficiaries in small municipalities who are being explicitly encouraged to save in their BA accounts through financial incentives and education interventions, we found that, nine months into the program, the interventions seem to have changed attitudes and perspectives toward bank savings, but not financial behavior.

There is a certain segment of Familias en Acción beneficiaries that find it attractive to have access to a bank account for purposes beyond merely withdrawing grant funds. However, because they don't fully understand account conditions, product design, and transactions costs, and they are insecure about small savings values and fear of how their financial behavior might affect program eligibility, few appear to be taking advantage of this opportunity.

Data

To tackle the core demand-side question posed by this CGAP study—will G2P recipients use financially inclusive accounts if offered them—we drew extensively on a large body of evidence:

1. A 2009–2010 study commissioned by the InterAmerican Development Bank and implemented by the Centro de Estudios para el Desarrollo Económico (CEDE) at the University of the Andes,⁴¹ which examined the strengths, weaknesses, efficiency, and efficacy of alternative government grant payment mechanisms in six major cities (Bogotá, Pasto, Sincelejo, Montería, Valledupar, and Cali)
2. A 2010 quantitative and qualitative baseline study⁴² of the Banco de las Oportunidades Pilot Program to Promote a Culture of Savings among Poor Families (PPCA), which uses a range of interventions to encourage formal, liquid savings among 49,350 Familias en Acción beneficiaries in 12 municipalities
3. Eight new focus groups and five new depth interviews in four municipalities also engaged in the BdO pilot project, building on the baseline study and using a questionnaire guide adapted to enable cross-country comparisons specifically for this CGAP study

The PPCA Baseline. BdO's PPCA offered a particularly rich context to explore this study's research questions, both by providing a solid background on the behaviors and activities of Familias en Acción beneficiaries based on the in-depth baseline data available, and by enabling us to take a look at early experiences of beneficiaries after four months of initiatives designed explicitly to encourage beneficiaries to use their payment accounts to save.

The goals of PPCA are as follows:

- Increase savings accumulation in liquid assets
- Rebalance beneficiary portfolios by shifting some savings from informal to formal instruments
- Facilitate financial transactions through safe and efficient channels

⁴¹ Maldonado Jorge H., Urrea María A., Bancarización y acceso a servicios financieros de beneficiarios urbanos del Programa Familias en Acción, Serie Documentos Cede, 2010-41.

Maldonado Jorge H., Moreno-Sánchez Rocío, Estrategias de suavización del consumo y del ingreso de las madres beneficiarias del programa Familias en Acción: un análisis cualitativo, Serie Documentos Cede, 2010-23.

⁴² Unión Temporal Econometría Consultores and S.E.I., Levantamiento de la línea de base del piloto del proyecto de Promoción de la Cultura de Ahorro en Familias en Pobreza y el análisis de los datos resultantes de la misma. Informe final. December 2010.

- Contribute to poverty reduction by smoothing consumption in the face of income fluctuations and unexpected shocks
- Encourage savings to serve as a gateway to other financial services, such as bill pay, transfers, microinsurance, and microcredit.

Municipalities participating in the program were divided into one control and three experimental groups, which were provided with three distinct treatments aimed at increasing impact around the above objectives:

1. Financial education provided to beneficiaries through six monthly workshops using a methodology adopted from Microfinance Opportunities specifically for PPCA.
2. A savings incentive in the form of a municipal-level lottery offered to all beneficiaries with bank accounts, in which winners would be drawn four times per year and will receive 10 times their account balances as a reward for saving.
3. Another group offered both financial education and the savings incentive.

New research exclusively for this CGAP project. The new research undertaken for this CGAP project examined participants’ experience after they completed the financial education sessions; each experimental area with a financial incentive already had two lottery drawings, rewarding savers by multiplying winners’ average quarterly balances by 10. We selected five municipalities—one of each intervention type—and conducted eight focus groups with 74 respondents (71 women; 3 men). We conducted five in-depth interviews with focus group respondents to probe some discussion topics more deeply.

Table 1: Municipalities selected for CGAP Research Focus Groups

Municipality	Intervention
San Andrés de Sotavento/Tuchín ⁴³	Incentive
El Zulia	Education
Puerto López	Incentive and Education
Ciénaga de Oro	Control

Discussions were guided by a cross-country discussion guide adapted to fit the Colombia context (see Annex B-2).

Beneficiary Profiles

The participants in our focus groups were low-income mothers in two-parent households. Among the 74 participants in the focus groups, eight were Leader Mothers.⁴⁴ The average age of

⁴³ Tuchín became a separate municipality from San Andrés de Sotavento in 2007, but the two municipalities are managed as a single unit by BA.

⁴⁴ Leader Mothers are beneficiaries who serve as links between program administration and beneficiaries.

participants was 36, and average household size was 5.7.⁴⁵ Given that 88 percent belonged to two-parent households, this implies each participant was caring for, on average, four children.

In two-parent households, typically the husband is responsible for regular household expenses like housing, food, education, public services, and clothing. Women, tend to earn money through a range of small businesses and are expected to pay for the costs of “extras,” such as illnesses, gifts, trips, and special events. Families typically do not consider women’s income in the household budget. It’s something “extra” and outside the typical costs of living. Our study, as well as did the PPCA baseline and CEDE studies, found that for most families the Familias en Acción grant supplements the main household income, generally earned by the male head of household, who typically earns about one minimum wage (\$599,200/month). Beneficiaries often say that their families “live on the minimum.”

On average, participants have been receiving government benefits for 4.4 years. Only 39 of the 74 households were receiving the larger nutrition grant, which is available only to families with children younger than seven years old. In these same households, 21 children attended primary school, which earned these households an additional \$15,000 per month per child, and 33 children attended secondary school, which earned each household an additional \$30,000 per month per child. In the 34 households without the nutrition grant, 21 children received the primary education grant and 39 received the secondary school grant.

The grant typically accounts for 15–20 percent of household income, with this proportion fluctuating more from the number and ages of children than the scale of other household income, which tends to be fairly homogeneous. The average monthly subsidy from Familias en Acción among those participating in our focus groups was \$122,662.

Table 2: Familias en Acción Income as a Share of Household Income (PPCA Baseline)⁴⁶

Municipality	Average grant income per household per month (\$)	Average working income per household (\$)	Average grant share of total household income (%)
San Andrés de Sotavento	103,597	381,143	21
Ciénaga de Oro	89,417	501,880	15
El Zulia	128,128	486,099	21
Puerto López	61,116	606,964	9

Key findings

⁴⁵ The CEDE study, which focused on larger urban areas found smaller household sizes in those areas.

⁴⁶ Econometria, SEI, 2010.

Most beneficiaries prefer to be paid via the BA account. But, this preference seems driven by convenience rather than a desire to use the savings option. Beneficiaries told us the following:

“Before [the payments started to come through accounts] there were very long lines.... People argued, once, they even took out a knife, so I decided that I would always collect on the last day to not risk going there.”

“You had to wait for the day when it was your turn and stand in huge lines, not now.... There were people sleeping, saving their place in line because it was with a token. You stayed up really late. Not now, with the card; wherever I am I go and collect there.”

Indeed, this agrees with the findings of CEDE, whose study quantified waiting times through different payment channels (Table 4) and found dramatic reductions in beneficiary travel and waiting times due to the shift away from cash distributions. The banking option gives beneficiaries many more channel options, but is similar to the prepaid card when it comes to client-borne transaction costs.

Table 4: Client-borne transaction costs in various payment method and channels

	Travel Time (min)			Waiting Time (min)			Monetary Cost (\$)		
	Cash	Prepaid Card	Bank	Cash	Prepaid Card	Bank	Cash	Prepaid Card	Bank
Banks	37	42	32	259	136	142	2,694	2,298	2,600
Meeting sites	34	--	--	404	--	--	2,222	--	--
ATM	--	29	26	--	68	58	--	1,971	1,690
Department store or supermarket	--	19	26	--	41	38	--	1,235	1,581
Agent	--	--	20	--	----	135	--	--	--
Shop	--	14	22	--	14	46	--	--	--
Others	33	--	--	270	--	--	1,830	--	--

Source: CEDE—BID, Survey on the Plan of Bancarization.

But, some beneficiaries complain that they have to wait a little longer to be able to claim their money through the bank accounts. They say it takes about a week between when the payment is supposed to be made and when they actually see the funds credited to their accounts, what beneficiaries call “activating the account.” According to the bank and Acción Social, all accounts are credited on the same day, but we heard from several beneficiaries that the money is often unavailable for week.

“I also never collect on the first day, because they don’t deposit the all the accounts the same day. There are people who rush and go insert the card only to say, ‘Look! They haven’t deposited!’ and they go every day, and they think that it doesn’t affect them, but it does. They don’t believe me, but I’ve told them, ‘Don’t put the card in so much, because that charges you.’ They say, ‘No it doesn’t.’ And you start arguing...to each his own way!”

“There are women who wait until a week later to collect, because not all the accounts are activated at once. Since you can’t keep checking the balance all the time—the bank charges from the second time for balance inquiry—that is why you wait.”

Even though most are happy with the bank-based payments, some prefer cash payments through a person, primarily because of challenges in using the ATM. For example, several beneficiaries in San Andrés de Sotavento told us that they prefer to wait for the human being (a “mobile cashier”) to arrive on a scheduled date to pay them in cash (always in small bills in order to pay the grant in full) than to take their chances having problems with the ATMs. They say that

they trust a person more than an ATM. These recipients are unfamiliar with ATMs, and they are afraid that they can be taken advantage of because they don't know how to use the ATMs:

“I have never gotten money at the supermarket [ATM]. I prefer to wait for the mobile cashiers to come and I know that I'm safer.”

Facilitator: “So you trust the mobile cashiers more than going to [the ATM at] Sincelejo?”

Woman 1: “Of course! Here there is just one ATM, and it gets very congested. There are sly people and as soon as they see you don't know how to use the card, they go and tell them, ‘Give me some money, I'll help you.’ Sometimes they even rob them.”

Woman 2: “Yes, in the land of the blind, the one-eyed man is king!”

Some also express comfort that, when they collect from a human being, they can ask questions and get answers:

“...If I go there, I can ask, ‘Madam, why didn't I get my payment?’ and they search and tell you why.”

There also has been some resistance to payments through bank accounts for indigenous communities. Indigenous leaders fear that their people are being forced into using banks. BA has accommodated these complaints by continuing to make nonaccount-based, cash payments via money orders claimed at a mobile cashier.

Most beneficiaries are learning to use ATMs. In the beginning, those receiving electronic payments went to the ATM with a relative or trusted friend who would help them make the withdrawal. Many of the beneficiaries struggled to use ATMs at first, but it seems that most now can now use ATMs by themselves.

“At first it was hard, because there are many families who are ignorant or who are illiterate. But, as the months went by, that stage has been overcome.”

In some places, entrepreneurs saw this large introduction of new ATM users as a business opportunity. Shopkeepers hosting ATMs would charge beneficiaries to use the machines. And, some began charging beneficiaries a fee to show them how to operate the ATMs or to withdraw on their behalf.

“What happens is that if you are a customer, the boys know you and come and do a favor for you. But, people from the countryside, no. Several people from San Andrés are

getting \$2,000 taken from them each time or you have to buy \$5,000 or \$10,000 at the shop in order to use the ATM.”

“At the ATM, you find the ticket salesmen [a person helping people use the ATM] and the police. Now the police are helping more, but it used to be just the ticket salesman who was off for the day to be there. They’d charge you \$1,000–\$2000 to help you withdraw.”

Data from the bank also confirm that beneficiaries are getting better at using ATMs. Call center logs indicate that calls about failed transactions (mostly due to forgotten PINs) have fallen from 70 percent in 2009 to only 20 percent today.

While many beneficiaries are saving, very few consider the savings capability of their BA account to be a major feature. In CEDE’s study (which covered large urban areas) beneficiaries reported that the possibility of savings was a major advantage of the bank-based payment option. Beneficiaries in our focus groups were not using the accounts to save and did not mention the savings function as a major attraction. They seemed to indicate that, even if some appreciate the opportunity to save, they may not take advantage of it. It could be that residents of large municipalities find this feature more attractive than those living in small cities. Beneficiaries in large cities may be more comfortable with banking, potentially even having an account before bancarization through Acción Social.

Instead of using the account to save, most withdraw the entire grant at once. The BdO quantitative baseline for the savings promotion pilot found that 91 percent of beneficiaries report withdrawing the entire grant at one time (Table 5), and there was little difference across treatment groups in the study.

Table 5: How often do you withdraw the entire grant value at one time?

	Percent of Sample
Always	91
Almost always	5.3
Sometimes	2.8
Almost never	0.9

Available data suggest many reasons why beneficiaries may be withdrawing their grant in full. It is very difficult, however to determine which factors are most important.

Why not save in the BA account?

- a. Some beneficiaries still do not understand all the features and rules of the BA account.** The PPCA baseline found that 88 percent of beneficiaries knew they were being

paid through a bank account, and 77 percent knew they could leave part of their subsidy there to save. But, rumors sometimes contradict messages from the bank and Familias en Acción, causing confusion. For example, many beneficiaries still believe rumors that they will lose the grant if they leave even part of it in the account and others doubt that they can make deposits of other resources into the account. CEDE found that 55 percent know they can leave their funds in the account for two months without withdrawing, but 45 percent believe doing so will cause you to lose the funds. CEDE also found that about 65 percent understand they can make additional deposits in the account.

There is a lot of discomfort and suspicion around bank charges. Because beneficiaries do not fully understand the rules, they were not able to recognize and correct a mistake in one area where the bank was wrongly charging for a first balance inquiry. Not understanding the fee structure can be a major inhibitor to using the accounts for savings.

“Yes the bank is far away, but also you hear a lot that people leave balances and they lose them.”

“I withdraw everything, because the bank charges me \$1,500 for each transaction. That already happened to me.”

“[At the bank] they just take from you. A long time ago I went and withdrew everything, because you are just saving to let them take your money. No. It’s best to keep the money at home. It’s better you just keep that \$10,000 or \$20,000 in your pants or shirt pocket, and later it’s useful.”

Even for those in the financial education areas—after all the sessions have been completed, including two hours covering the terms of the account—understanding appears to be low. Some evidence suggests that experiential learning may be a more powerful tool in helping beneficiaries understand the rules of how their accounts operate. Allowing frequent free balance checks can enable beneficiaries to track their accounts and understand how they work.

Some have had bad experiences with financial institutions in the past and express a general distrust of banks:

“When I was living in the countryside, I had an account and one day I needed \$150,000, and they said I didn’t have any money. No one took responsibility for that, so, for me, never again will I use a bank.”

“I had an account at the bank, like \$1,300,000 were there, and I didn’t move it. When I went to check on it, I had \$93,000. They had taken it from me.”

It is not surprising to see that there is so much misunderstanding about the terms and use of the accounts. This has been a massive push toward putting thousands of beneficiaries into bank accounts for the first time, with little time to refine messages. Those messages are also a major departure from the historical message from Acción Social that the subsidies were supposed to be used in full on the expenditures of children.

- b. Having participated in the program for many years, beneficiaries have internalized the message that the grant is meant to be spent on children.** It is often used for school supplies, snacks, shoes, and clothing, for example. And, the children have also been sensitized that the payment is for their benefit and ought to be directed toward their needs. Many women do not feel they have full discretion over how to manage the funds, because the child actually makes a claim on the payments. This inclination to use the money to meet children's needs may be discouraging savings for more distant purposes.

“Your children are waiting for the grant to arrive and they know how much it is. They ask you to buy something for them.”

“Mine asks me, ‘Mommy, where are you going? To the bank? So is my money there? Let’s go!’”

“That money has to be for the children, for notebooks, for anything they need. That money can’t be used on anything else.”

- c. Some beneficiaries said they needed the money too much to be able to save.** They said that they have too many expenses and needs to be able to leave money in the bank.

“In the savings class, you saw that you needed to save, but sometimes you can’t.”

“There isn’t any money to save.... Living off minimum wage with two children and paying rent, how can you save?...The minimum wage is barely enough to survive.”

“I think it’s the people who don’t need the subsidy who save, for example, teachers who get paid. They should save in the bank.”

And several said that if they could save, the savings would be small. They might have to rush back to withdraw their small-value savings. They felt that doing so would be embarrassing. Beneficiaries were a little ashamed to be making these types of transactions in front of better off bank customers who they think can be judgmental and condescending.

“If you have the money and something comes up, you spend it right there. The truth is that you would feel embarrassed to go withdraw at the bank—that you deposited today and you need it tonight.”

“They don’t mistreat us at the bank. The service is good, the problem is the people who go to the bank, the teachers, the bank users...the cream of the crop. Supposedly they have the right to go to the bank and not us.”

- d. Some fear that saving in an account linked to Acción Social will mean that their savings will be monitored and will indicate that they are too wealthy to benefit from the program.**

“If I sell four beds now, I will make \$500,000...if I deposit this in the account... [W]ell, last year this happened to me, and later they told me don’t do that, because they know and they will say you make too much, that you are okay, and you don’t need Familias en Acción.”

- e. Others point to high transaction costs as a reason not to save in the bank.**

“The other thing is that [those who live in the village] have to pay for [transportation]. If they don’t collect today, they have to come back later and pay for transport again.”

“I come from the countryside, I am going to save \$10,000, and I spend \$6,000 on transportation!”

Instead of saving at BA, beneficiaries are saving with informal mechanisms. The BdO PPCA baseline found that 72 percent of beneficiaries were saving, but only 3 percent of them were saving in a formal financial institution. It also found that the overwhelming majority of all financial savings was happening in the house. While banks were viewed as safe, beneficiaries expressed fears that their small-value savings would be quickly eroded by fees. Cooperatives on the other hand, were a bit more risky, and there is very little trust in savings groups or in holding financial assets in loans outstanding. However, some people still use them, because returns to these types of savings can be very high. Savings in the house is a very convenient place to save small amounts, which can be accessed at any time to cover emergencies or to smooth consumption. But, savings in the house can be a little too accessible for many. It is quickly depleted by spending on “unnecessary” things. Some beneficiaries considered raising animals as the best way to save money. Not only do animals increase in value, but they are also less liquid and provide benefits like eggs and milk even before sale and slaughter.

Beneficiaries find ways to economize and sacrifice so that they have a little cushion for unexpected needs.

“I don’t shop for groceries. [My husband] leaves money for each day, so I try not to spend it all. That’s where I get the money for the kids’ snacks and I save.... In the morning he gives 7 and in the afternoon 10. I distribute from there....I don’t buy junk food, instead I save, and it’s enough. I sell the ice, and I save it. I make 1,000–1,200 per day, and I save.” Woman from San Andrés Sotavento

“You will have to write that there is a girl in San Andrés who stretches money like pastry dough.... I restrain myself, and I won’t give myself unnecessary luxuries knowing there are always other needs.”

Participants in our focus groups sometimes preferred to manage cash flow needs with credit rather than bank savings:

“The grant is every two months, sometimes you need something and you are not going to wait for the grant to arrive. You have friends who have stores, so you are friends and you say, ‘look, give me this, and I’ll pay you when the kid’s money arrives.’ So when that arrives, you go, as they say, to distribute.”

Almost all the participants in our focus groups were saving something in the house for unexpected expenditures and for their children’s college education. At home, they hide the money in a place that only they know about, like in the pockets of clothing and inside of books. They say that it’s important to keep it out of the sight of their husbands, but also to keep it close at hand for whenever they need it. But, this money in the house is hard to hold onto; it’s very easy to spend.

“Do you know what I do when my husband gets a bonus or something? I put it in the dirty laundry. I have a big basket and in it I just put my clothes. Who would know that there’s money in there?”

“I keep it hidden where my husband and daughter can’t find it. Any bill my girl finds...she spends it all.”

“In my house [the piggy bank] does not work. When you need money for a ticket or something, you take it.”

So, when they are trying to save toward a specific goal, many instead give their money to their mothers and ask them to hold the money for them. This takes the money a bit farther away, reducing the temptation to spend it.

“I give it to her, because if I have it here and I have an expense today, I take it from the house and tell myself I’ll replace it, but I can’t...I forget. Instead, over there [with my mother], if I need the money, I tell her to lend it to me and that I will repay her when I get paid.... So that’s the main reason that I give it to my mom to save.”

Others are saving in animals. Particularly in rural areas and areas where many beneficiaries run businesses that generate income to cover unexpected expenses, many invest rather than save in cash.

“I go out to sell my chickens, my turkeys, if there is a pig, I sell it. I don’t leave my child without the book or without what he needs at school.”

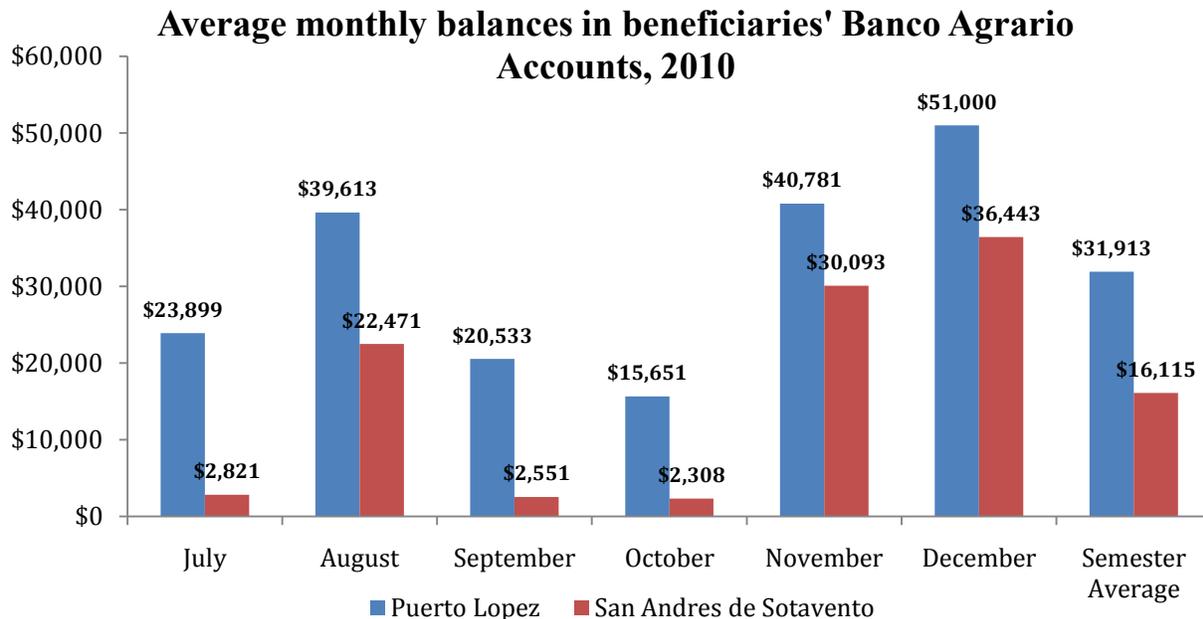
“I save in animals when it’s possible.”

Women tend to save for emergencies and for children’s tertiary education. They say that men are not very good at saving and typically do not. PPCA found that 72 percent of beneficiaries were “saving” in a very broad sense that included lending to others, putting money aside for household expenditures, or drawing on money put aside to cover educational expenses, special events, or emergencies in the past year.⁴⁷ But, across the surveyed population, consumption smoothing savings was on average just \$40,181, or the equivalent of just two days of average household income.

In areas where other banks operate, a few have opened other savings accounts (not linked to Familias en Acción) to keep some of their savings in special children’s accounts.

While saving in the payment account is not very common, we do see some changes in average balances, which suggest that some families are using the account to save in anticipation of cash flow shortages ahead. The graph below from Bdo’s baseline shows average balances increasing in November and December, and Bdo hypothesizes that this is due to families preparing for lumpy, school-related expenditures in January.

⁴⁷ Econometria, SEI. 2010. (p. 38)



Source: BdO baseline

Beneficiaries in the financial incentive municipalities seem to be aware of the incentive and find bank savings attractive, even if they are not using it actively.

“There are people here who have saved and have won the benefit and have won the raffle, that’s why it’s good to leave something there.”

“The raffles motivate me.... Last time, because the raffles were going to begin, I left the subsidy there. It’ won’t be zeroes again.... I will leave it now, because the hard part is in February, not now.”

This all suggests that over time raffles may serve as a more effective motivation. Perhaps with time we may see an actual change in behavior among a significant number of participants in the savings incentive scheme.

Areas receiving financial education appear to be taking up insurance more than other areas. It does not appear that at this stage the bancarization scheme has served as a gateway for beneficiaries to access other financial services, except among those receiving financial education. Insurance was part of the financial education curriculum. In areas that received the training, we found that about 43 percent of respondents use either funeral or life insurance, both of which are very uncommon (5 percent had one) in other areas. Those who have taken up insurance see this as an important investment in the future.

“Now my husband has insurance...in the classes they told us that was a good thing to have. Now my children say ‘When are we going to receive the 7 million they are going to

give us when you die?’ (laughter) I say it is a good investment because now dying is very expensive.’ (Mother El Zulia)

“I have the funeral one (insurance), my husband has life insurance from where he is working. I pay life insurance through the electricity bill. That insurance is the only thing I pay that way.... Now a dead person costs more than a live one.”

Conclusions

Beneficiaries find that the main attraction of being paid through the bank is the convenience it affords for withdrawing benefits. Beneficiaries can collect at the date and time of their choosing without long waits. Most have learned to use ATMs, even though there were some initial insecurities and difficulties operating them.

Few beneficiaries are using the accounts to save and instead are saving in the house, where they are comfortable keeping even very small sums and where they feel the money is more accessible. Others are not interested in saving in the bank because of misunderstandings about the fee structures and a fear that their money will be lost to bank charges.

Still, saving in the bank may be quite attractive for a portion of beneficiaries, but products and product communications will need to be modified to earn their trust that (1) savings will not jeopardize inclusion in the program and (2) they can exercise full control over their balances. These objectives can be achieved only by making the terms of the account very clear and by allowing beneficiaries free and frequent balance checks so that they can closely monitor their account. The product itself may also need to be modified to better help beneficiaries meet their longer term savings goals, such as saving for their children’s higher education.

We see some early indications in the financial education and financial incentive savings pilot municipalities that attitudes toward bank savings are changing. Perhaps, in time, that will also induce changes in behavior.

Annex B-1: Methodology of New CGAP Focus Groups

The CGAP focus groups targeted municipalities participating in PPCA. We selected 4 of the 12 sites to include a range of program interventions (different control and treatment sites). Sites were also selected based on the ability of our team to access the sites amid flooding, which was affecting much of the country. The following sites were selected:

- San Andrés de Sotavento (financial incentive)
- El Zulia (financial education)
- Puerto López (financial incentive and financial education)
- Ciénaga de Oro (control).

Between 26 April 2011 and 6 May 2011, we conducted eight focus groups, with a total of 74 beneficiaries, 96 percent of whom were women. At the time of the focus groups, all of the financial education sessions had been conducted, and there had been at least two lottery drawings, which constitute the financial incentive to encourage savings.

The principal objective of the study was to know the costs and benefits of the financially inclusive payment system from the perspective of beneficiaries. We applied qualitative methods to try to understand their perspectives and preferences in greater detail than might be possible through a survey. We wanted to understand patterns of use of the accounts, changes in the financial portfolio since acquiring bank accounts, and the possible difficulties there may be in trying to change financial behavior.

To organize these groups, we enlisted the help of the municipalities to invite a group of 10 beneficiaries to each group. We asked them to prioritize those who were not serving as Leader Mothers.

At the opening of the meeting, we collected some basic data on each participant, including the following:

- Age
- Whether she was a beneficiary or Leader Mother
- Number of household members
- Number of children under seven years old
- Number of children in secondary school
- Number of income earners in the household
- How long the family had been receiving the grant

Each discussion was guided by a shared cross-country discussion guide, adapted for Colombia (Annex B-2).

After each focus group, we selected particularly forthcoming participants for in-depth interviews to explore some themes more deeply and to allow for some perspectives to emerge that participants might feel uncomfortable sharing in the group setting. The study included a total of five in-depth interviews.

Annex B-2: Focus Group Discussion Guide

<p>Actitud frente a la forma de pago a través de la cuenta de ahorros</p>	<p>Objetivo: Entender la actitud de los titulares frente al mecanismo de pago del subsidio a través de cuentas de ahorro y hasta qué punto se valora tener recursos depositados allí.</p> <p>Preguntas:</p> <ul style="list-style-type: none"> • ¿De qué otras formas ha recibido el subsidio de Familias en Acción (efectivo/pago en otro municipio/cuenta de ahorros) • ¿Cuál considera que ha sido el mejor mecanismo de entrega del subsidio?, ¿porqué? ¿Cuál ha sido el peor?, ¿porqué? [Conveniencia, flexibilidad, comunicación con el programa, confiabilidad, oportunidad, costo, sensación de control] • Cuando recibía el dinero de las otras formas, ¿cuánto tiempo se demoraba en tener acceso al dinero?, ¿cuánto tiempo gastaba de su casa al lugar donde pagaban el subsidio?, ¿cuánto tiempo esperaba en el lugar de cobro para recibir el subsidio? • Desde que recibe el subsidio en la cuenta de ahorros ¿Cuánto tiempo se tarda tener acceso al dinero?, ¿cuánto tiempo gasta entre su casa y el banco?, ¿cuánto tiempo espera en el banco? • ¿Cuáles son las principales ventajas de recibir el subsidio de Familias en Acción en una cuenta del Banco Agrario? • ¿Han tenido problemas con este mecanismo de pago del subsidio? <ul style="list-style-type: none"> ○ ¿Qué tipo de problemas? ○ ¿Han sido presionados para pagar costos adicionales por la cuenta de ahorros, adquirir otros productos relacionados con la forma como recibe el subsidio p.e. si lo paga un CNB, le toca comprarle algo en la tienda? ○ ¿Han tenido problemas con el banco o con el CNB? (atención de los funcionarios, cajero electrónico p.e. los pagos mínimos de \$10.000 y múltiplos de \$10.000, pagos electrónicos, pagos por datáfono, etc) ¿Han requerido ayuda y la ha obtenido de alguien de la comunidad y no del banco?, ¿ha tenido que pagar por esta ayuda? ○ ¿Han podido resolver estos problemas? ○ ¿qué tan útil es la ayuda del Banco Agrario? ○ ¿cómo se siente en el banco?
<p>Portafolios.</p>	<p>Objetivo: Conocer cuáles son los instrumentos financieros que utilizan los participantes, así como el tipo y las características de aquellos que les parecen realmente atractivos.</p> <p>Preguntas:</p> <ul style="list-style-type: none"> • ¿Qué hace cuando tiene un gasto extraordinario, p.e. los gastos al inicio del año escolar (matrícula, uniformes, textos), celebración de festividades, vacaciones, tomar un taxi para llevar a un hijo al médico? • ¿De dónde saca el dinero para este tipo de gastos (ahorro, préstamos del banco o cooperativa, préstamo de un amigo o prestamista, vendiendo algún activo, realizando una rifa o bazar) [confrontar las respuestas con los resultados de la LB] • Para realizar una compra pequeña que tiene programada usted ¿qué hace? • Si para esta compra pequeña usted guarda parte del dinero, p.e. durante una semana, ¿en dónde lo guarda?, ¿Por qué?

	<ul style="list-style-type: none"> ○ Si la cantidad a guardar es mayor a la de una semana, p.e. un mes, ¿en dónde guardarlo?, ¿porqué? ○ Cuando le entra una gran suma de dinero (p.e. se gana una rifa o vende algún animal o electrodoméstico), ¿dónde la guarda?, ¿porqué? ● ¿Cuál es la forma más sencilla para ahorrar? [en la casa, en el banco, en una natillera o cadena, comprando animales, invirtiendo en un negocio o cultivo], ¿porqué? ● Cuál es la forma más segura de ahorrar [mismas opciones anteriores] ● Cuando reciben el subsidio de Familias en Acción, ¿qué es lo primero que hace con él?, ¿qué hace con lo que resta? [rastrear dónde lo guarda, si lo presta, si lo gasta todo, etc] ● Antes de tener la cuenta en el Banco Agrario: <ul style="list-style-type: none"> ○ ¿ha tenido otra cuenta de ahorros?, ¿aún la tiene?, ¿por qué la conserva o porqué la cerró? ○ ¿algún miembro de la familia a tenido o tiene una cuenta de ahorros?, ¿por qué la abrió?, ¿porqué la conserva o porqué la cerró? ● ¿Qué es lo bueno de tener una cuenta de ahorros?, ¿Cuáles son los beneficios? <p>[primero oír las opciones mencionadas y luego votar sobre las siguientes opciones:</p> <ul style="list-style-type: none"> ○ Que la plata no se pierda o se la roben ○ Nadie más sabe cuánto dinero se tiene ahorrado ○ Se evita la tentación de gastarse la plata ○ Se puede retirar la plata cuando se necesita ○ Es más difícil que las personas le pidan prestado dinero ○ Se gana intereses ○ Hay mayores oportunidades de crédito ○ Tiene un seguro contra robo ○ No es costoso mantener la plata en el banco]
Fuentes de ingresos	<p>Objetivo: Entender el papel del programa de subsidios condicionados en los ingresos de los hogares y lograr un entendimiento básico de los ingresos distintos del subsidio.</p> <p>Preguntas:</p> <ul style="list-style-type: none"> ● ¿Cuáles son las principales fuentes de ingresos del hogar?, ¿Qué fuentes son más importantes? ¿Cuáles aportan la mayor cantidad de dinero al hogar? ¿Cuáles son las más fiables? [Preguntar por todos los tipos de fuentes y llegar a una lista bastante completa – trabajo formal, trabajo informal, negocio propio, subsidio Familias en Acción, otros subsidios, ayudas de familiares o amigos, rentas, pensión, etc. ros Teniendo en cuenta a todos los miembros del hogar que generan ingresos] ● ¿Quién maneja la plata en la casa?, ¿quién decide cómo se gasta la plata? ● ¿Cuál es la importancia del subsidio en los ingresos del hogar en términos de cantidad, confiabilidad y oportunidad? ● ¿Qué es lo que usted aporta a los ingresos del hogar?
Uso de la cuenta de ahorros donde se realiza la transferencia del subsidio	<p>Objetivo: Comprender cómo y porqué los beneficiarios de Familias en Acción utilizan la cuenta de ahorros del BA en diferentes formas.</p> <p>Preguntas:</p> <ul style="list-style-type: none"> ● ¿la cuenta del BA donde recibe el subsidio sirve para ahorrar?, ¿porqué si o no? (pueden guardar parte del subsidio o traer plata para dejar en la cuenta) ● ¿Considera que es seguro mantener el dinero en la cuenta de ahorros del Banco Agrario?, ¿porqué? ● ¿Se siente cómodo recibiendo el dinero del subsidio en el Banco Agrario? ● ¿Cuántos retiros hace al mes?, ¿deja parte del dinero del subsidio en la cuenta del Banco Agrario?, ¿porqué? ● ¿Puede dejar el subsidio en la cuenta? ¿Puede depositar más dinero en la cuenta aparte del subsidio? ● ¿Porqué es importante (o lo sería) dejar parte del subsidio en la cuenta? ● ¿Utiliza la cuenta de ahorros del BA para ahorrar dinero diferente al del subsidio?, ¿porqué? ● ¿Para qué utilizará el dinero ahorrado en la cuenta del Banco Agrario? ● ¿Usa la cuenta de ahorros para acceder a otros servicios que ofrece el banco como pago de servicios

	públicos, transferencias a otras cuentas, compra de seguros, acceso a créditos?, ¿cuáles servicios?, ¿porqué ha accedido a ellos? [confrontar las respuestas con la LB]
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Annex C: Interviewed persons

Institution	Name	Job at time of interview
Banco Agrario	Eduardo Obregon	Senior Specialist, Institutional Banking
Acción Social	Fernando Sanchez Prada	Director, Institutional Strengthening and Geographic Management
	Ricardo Amorocho	Advisor—Multilateral Banks
Banca de las Oportunidades	Carlos Moya	Director
	Maria Clara Hoyos	Coordinator
Carvajal (former Assenda)	Claudia Reyna	Manager Business Development, Financial Products