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AHORRO, CONTABILIDAD MENTAL, AHORRO POR *DEFAULT* Y TRANSFERENCIAS MONETARIAS CONDICIONADAS*

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ABSTRACT

This document presents the final design of our research project titled in Spanish “*Ahorro, Contabilidad Mental, Ahorro por Default y Transferencias Monetarias Condicionadas.*” In particular it describes our intervention, the context of our research, the hypothesis we try to test, and the theory of change.

We explicitly state our main research questions and describe in detail our research methodology. We also comment on our expected results.**

1. CONTEXT AND TARGET PROBLEM

Having access to the formal financial system helps the poor to escape poverty (Aghion and Bolton, 1997; Banerjee and Newman, 1993; Banerjee, 2004). Unfortunately, the poorest segments of the world’s population—beneficiaries of conditional cash transfer (CCT) programs included—lack access to the formal financial system. Research, however, suggests that the poor have some ability to save and use informal savings instruments, which have been shown to be more expensive and/or less efficient (Banerjee and Duflo, 2007; Collins,

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Morduch, Rutherford and Ruthven, 2009; Karlan and Morduch, 2010). Recent studies show that there is untapped demand for formal saving devices and that access to a savings account can have a dramatic impact on the savings, investment and welfare of small entrepreneurs (Dupas and Robinson, 2013a) and households (Prina, 2014). This, in turn, may translate into an increased volume of domestic savings. These savings could be intermediated by the formal financial system and flow into productive investments. Hence, improving the financial access of the poor is a challenge that has yet to be achieved globally and that could benefit many.

Nowadays, in Latin America and the Caribbean alone, 22 million poor households are beneficiaries of a CCT program (Maldonado, Moreno-Sánchez, Giraldo and Barrera, 2011). Some programs have started modifying their payment system by depositing their transfers directly into the individual beneficiaries' bank accounts. Since January 2012, all six million beneficiaries of the Mexican CCT program Oportunidades receive their transfers directly into their own savings accounts at the Banco del Ahorro Nacional y Servicios Financieros (BANSEFI). Through this action, most of the poorest Mexican households are being incorporated into the formal financial system. Still, beneficiaries make little use of their accounts, getting most of their funds in one withdrawal. Hence, saving a fraction of the transfer for rainy days could help them improve their management of their scarce resources and, eventually, get them out of poverty.¹

Furthermore, mental accounting and default mechanisms may improve the ability of poor households in developing countries to save, cope with negative shocks, and invest in health and education. Such mechanisms have proven to be very

powerful in developed countries. Research for the U.S. has shown that mental accounting can affect savings and financial accounting decisions (Feldman, 2010; Sahm, Shapiro and Slemrod, 2010; Thaler, 1990, 1999). Defaults have also been shown to be very effective in increasing savings in developed countries (Thaler and Bernatzi, 2004; Madrian and Shea, 2001). These mechanisms, unfortunately, have not been available for most of the poor, who do not receive regular payments in a bank account.²

2. DESCRIPTION OF THE INTERVENTION AND THEORY OF CHANGE

Our target population is beneficiary households of Oportunidades that receive their cash transfers via a savings account and have been given a debit card to manage their funds. These beneficiaries live in urban, and semi-urban areas. In order to reduce BANSEFI's operating costs, and to reduce the data collection costs, our focus is on localities in the central part of Mexico that have between 120 and 622 Oportunidades beneficiaries.

On average our target population has been receiving the program for 5.3 years and got their debit cards 2.3 years ago. In 97% of the cases the recipient of the cash transfers—and owner of the debit card—is a woman. Female recipients have an average age of 40 and an average of 6.8 years of schooling. In 71% of the cases, they are the sole users of the card in their households. Prior to getting their transfers deposited in a savings account—and getting their debit card—the vast majority of the sample did not have any relationship with formal banks. Only 3.3% report having received job-related payments through a bank even though 97% report having a job. Furthermore, about three quarters of the women report that they do not know basic characteristics,

¹ Previous research has shown that it has been difficult for CCT recipients to get out of poverty (Campos-Vazquez, Chiapa, Huffman and Santillan, 2013).

² Previous research has shown the power of defaults in developing countries in other contexts: chlorine dispensers in Kenya (Kremer et al., 2009) and iron-fortified flour in India (Banerjee and Duflo, 2011).



such as withdrawal fees, of the savings accounts in which they receive their CCTs (INSP, 2012).

We propose to offer to the beneficiaries of Oportunidades with a debit card the possibility of opening (1) an account denominated for emergencies in which individuals can voluntarily deposit some savings and (2) an account denominated for emergencies where by default 10% of their CCT is transferred every time Oportunidades makes a deposit. These accounts will be completely liquid.

Giving these beneficiaries the chance to save in a separate savings account denominated for emergencies should enable them to accumulate higher total savings in the future. This, in turn, may allow them to cope better with negative shocks, invest in their health and education, and perhaps start new businesses or improve the ones they currently have. Hence, while the mandated objective of Oportunidades is to break the intergenerational transmission of poverty, households that are able to save part of their savings today may themselves—and not only their children—be able to escape poverty, tomorrow.

Furthermore, the more households “interact” with BANSEFI, the more comfortable they may feel with the bank and the financial system in general. Therefore, the combination of accumulated savings and confidence in the use of the financial system may allow them to demand other types of financial products in the future like (micro) credits or insurance that may further help them to manage their financial lives.

3. PRINCIPAL RESEARCH QUESTIONS

The intervention intends to test the effectiveness of mental accounting and default mechanisms for poor households in developing countries. Direct deposit of CCTs into a savings account provides a unique opportunity to do so. Working with BANSEFI—

the bank managing all the savings accounts of Oportunidades beneficiaries—we will implement a randomized controlled trial to address two questions. We aim to rigorously estimate the effects that:

- (1) having an account denominated for emergencies in which individuals can voluntarily deposit some savings (mental accounting), and
- (2) having an account denominated for emergencies where by default a certain amount is regularly transferred (mental accounting + default)

have on savings at BANSEFI, on overall household savings, on the ability of households to cope with negative shocks, and on investments in their health and education.

Our study is the first one to take advantage of direct deposits of CCTs into savings accounts to explore the potentially beneficial effects of these two behavioral mechanisms for poor beneficiary households. Recent research has shown that even a simple metal box labeled for health emergencies, that allows the poor to save for future health expenditures, can have a big impact on savings and health expenditures of households. Dupas and Robinson (2013b) explain that this is an effect of mental accounting: when money is deposited in the box, it becomes mentally allocated to cover health expenses only. In our study, labeling a formal savings account for emergencies could have a greater impact, as the risk of “losing” the money saved is less than when it is kept in a metal box inside the home. Our study will shed light onto this. Moreover, previous studies (Bernatzi and Thaler, 2004; Madrian and Shea, 2001) have shown that enrollment into a savings plan that, by default, deposits a small fraction of the wages of workers in a specific savings account, increases their savings. Thus, providing poor households with the ability to save by default could be a powerful tool to help them save.

To our knowledge, our study will be the first to measure the effect of default saving mechanisms for the poor.

Finally, while the poor face the same amount of risk—or even more in relative terms—as the rich, they do not have access to the many tools and mechanisms—among them, defaults, mental accounting, reminders, automatic deposits—the rich have access to. The use of such tools and mechanisms facilitate their decisions and improve their outcomes (Mullainathan and Shafir, 2009). Furthermore, poverty, by itself, creates additional psychological burdens (Mani, Mullainathan, Shafir, and Zhao, 2013; Shah, Mullainathan, and Shafir, 2012). Hence, not only the poor lack access to these tools, but also, these tools could have a greater impact on their lives than the impact they have on the lives of the rich. Consequently, we hypothesize that savings and welfare of households receiving the mental accounting treatment should be higher than the ones of control households. In addition, the savings and welfare outcomes of households receiving the mental accounting + default treatment should be higher than the outcomes of the households solely receiving the mental accounting treatment.

4 STUDY DESIGN AND RESEARCH METHODOLOGY

We will use a randomized-controlled trial design to study the effects on savings of (1) having an account denominated for emergencies in which individuals can voluntarily deposit some savings, and (2) having an account denominated for emergencies where, by default, a certain amount is regularly transferred.

Before the start of the intervention, all Oportunidades beneficiaries in all our sample localities have attended a first educational session (September/October 2013) on the benefits of savings and a second educational session (November/December 2013) on why is it important to save for emergencies, what are the advantages of

saving in a formal financial institution, the fact that they already have an account at a formal financial institution (BANSEFI), and some tips about the advantages of saving in a formal financial institution like BANSEFI and about the transactions they can carry out. Specifically, we remarked that their money is protected by the Federal Government; that it is available 24/7 via ATMs; that the cardholder is the only person that can access the account, knows the balance of the account and can make withdrawals; that not having the money at hand may allow the beneficiaries to reach their savings goals faster; that they can make deposits into their accounts, for free; and that they can withdraw that deposited money the same way they withdraw their transfers from Oportunidades. We designed the content of the material for the two educational sessions and shared it with Oportunidades.³ Oportunidades was solely responsible for diffusing this material among all its beneficiaries.

From the end of April to the end of May 2014 we conducted a baseline survey on a subsample of beneficiaries in all sample localities. The survey was supposed to start in January, but was delayed due to delays in the process of signing the grant agreements from our two main funding institutions (Universidad de Chile – “Todas Cuentan” and Innovations for Poverty Action) and, consequently, in the reception of funds needed to cover the cost of the baseline survey and its monitoring.

We randomized our sample localities into one of three treatment arms so that all beneficiary households in the same locality are subject to the same treatment. Randomization at this level reduces concerns about contamination across treatments—i.e., the interaction between households in two different treatment arms in the same locality—

3. The material is based on Jaime Ramos Duffaut and Rita Carrillo Robles. 2012. “Una mujer que ahorra es una vida que cambia vidas: Serie de módulos para el desarrollo de capacidades financieras ‘Diva, la ahorrativa’,” Instituto de Estudios Peruanos - IEP.



affecting the nature of the experiment. The treatments are as follows:

Control C: Oportunidades beneficiaries keep receiving their transfers via their regular savings

account and keep using their debit card to manage their funds. BANSEFI staff conducts a special educational workshop on how to use their regular account and provides each beneficiary with a booklet (see Figure 1) to help her track her savings.⁴

Figure 1: Cover of the booklet “El librito de mis ahorros”



4. In contrast to the educational sessions provided in September/October and November/December 2013, the emphasis of these special educational workshops is on how to make a deposit into their existing accounts, how to use their savings

booklet and how to keep track of all their transactions using the savings booklet. We also suggest that saving a 10% of the Oportunidades transfer may be good in case an emergency happens, and show how to compute the 10% of a given amount.

Treatment T1: Oportunidades beneficiaries keep receiving their transfers via their regular savings account and keep using their debit card to manage their funds. In addition, they get access to an account for emergencies. They can voluntarily make deposits of any amount in this account. Money in both

accounts is fully liquid and can be withdrawn at any time. BANSEFI staff conducts a special educational workshop on how to use their regular account and their account for emergencies and provides each beneficiary with a two booklets (see Figures 1 and 2) to help her track her savings in both accounts.⁵

Figure 2: Cover of the booklet “El librito de ahorro para mis emergencias”



5. The content of the special educational workshop for Treatment 1 is similar to the one for the Control group. The main difference is that we introduce the account for emergencies. We also suggest that saving a 10% of the Oportunidades transfer may be good in case an emergency happens. The two booklets the

beneficiaries receive are identical in terms of their content—the only difference is the cover and the name of the booklet. We use the booklet associated with the account for emergencies when explaining how to use the savings booklets and how to keep track of all their transactions using their savings booklets.



Treatment T2: Oportunidades beneficiaries keep receiving their transfers via their regular savings account and keep using their debit card to manage their funds. In addition, they get access to an account for emergencies. Moreover, they can agree to have 10% of their CCT deposited by default in the account for emergencies. The 10% transfer will happen automatically every time Oportunidades makes a transfer to the beneficiary's account. Money in both accounts is fully liquid and can be withdrawn at any time. BANSEFI staff conducts a special educational workshop on how to use their regular account and their account for emergencies and provides each beneficiary with a two booklets (see Figures 1 and 2) to help her track her savings in both accounts.⁶

The comparison of C vs. T1 + T2 identifies the effect of mental accounting. The comparison of T1 vs. T2 identifies the effect of saving by default.

We will use baseline data to check that our sample is balanced across treatment arms. In particular, we will check that average characteristics in treatment (T1 and T2) and control (C) localities are similar, conditional on locality fixed effects.

5. POLICY IMPLICATIONS

To date we know little about the potential benefits of delivering CCTs via savings accounts. Aside from increasing financial penetration for the poor, the two accounts for emergencies we have designed introduce mental accounting and default mechanisms that have proven to work in increasing

savings and welfare in the developed world and in other contexts. Through our study, we will test whether this is the case for the beneficiaries of Oportunidades, one of the largest CCT programs in the world. Our results will help design better development policies associated with the delivery of CCT programs that maximize the benefits of poor households. Specifically, we will be able to provide rigorous evidence on whether mental accounting and default mechanisms can be considered as part of the tool-kit of public policies focused on promoting savings among poor populations, in particular, those receiving CCTs around the world.

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6. The content of the special educational workshop for Treatment 2 is similar to the one of the other two groups. The main difference is that now we explain that saving has become easier: it is done automatically. Every time Oportunidades makes a transfer, 10% of the transferred amount gets deposited into their new account for emergencies. As in the case of Treatment 1, we use the booklet associated with the account for emergencies when explaining how to use the savings booklets and how to keep track of all their transactions using their savings booklets.

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