

Banking Watch

Mexico

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Economic Analysis

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Electronic payment of social programs makes progress in Latin America and the Caribbean

- During 2010, in Latin America and the Caribbean (LAC), a total of 17 countries ran at the national scale at least 18 conditional cash transfer (CCT) programs. These programs assist almost 26.6 million families and have 115.1 million beneficiaries, which is equivalent to 22% of the total population in these countries.
- For disbursers, electronic payments are an alternative that reduces transaction and administration costs while it reduces deviations, makes the expense payment more transparent, and facilitates its audit. In addition, electronic payment also presents advantages to beneficiaries by reducing the time and cost for receiving one's assistance.
- Although the electronic dispatch of payments in itself does not generate financial inclusion, it sets the stage for familiarizing and delivering financial services to the beneficiaries of social programs, by bringing them closer to the instruments and agents of the formal banking sector.
- Over 80% of the LAC population which benefits from CCT programs receives the funds through electronic payment channels making possible the delivery of the assistance in a manner that facilitates financial inclusion.
- The scale of these programs varies between countries, covering from a minimum 4% of the total population in Costa Rica to 42% in Ecuador, with minimum annual assistance fluctuating between US\$94 in Bolivia and US\$684 in Argentina.
- In Mexico, Oportunidades assists some 27 million beneficiaries who receive at least an annual grant of US\$616, making it the second largest program in LAC both in terms of the number of beneficiaries and the amount paid out, after the Bolsa Familia in Brazil.
- BBVA-Research estimates that in Mexico, migration to electronic payment of the Oportunidades and Apoyo Alimentario programs (two of the most important poverty relief initiatives) could generate efficiency gains of 8.3 billion pesos, or 0.1% of GDP.
- Evidence concerning formal financial services demand and the scale of the operation that some of these programs have reached, open a window of opportunity so that commercial banking may offer its services to the lower income population.

1. Adoption of electronic payment in social assistance programs

Due to the importance of government payments, both in terms of transfer volume and the number of recipients, there has been a flurry of interest worldwide in making these disbursements through more efficient payment channels. In the particular case of payments made by the government to persons (G2P) such as grant recipients, employees, retirees, and suppliers, the migration of cash payment to electronic payment channels permitting direct deposits in the accounts of beneficiaries has several advantages on traditional methods such as cash and checks:

Table 1

Benefits of electronic payment of government disbursements to individuals (G2P)

Government	Individuals
<ul style="list-style-type: none"> • Reduction in costs of transaction and administration • Greater payment opportunity • Reduction of deviations • Makes the expense more transparent • Facilitates its audit 	<ul style="list-style-type: none"> • Lesser reception time and cost of the funds • Entry point to access other services of the formal financial system

Source: BBVA Research.

In spite of these benefits, some recent estimates indicate that, around the world, less than a fourth of payments of the government to the poorer population is distributed through inclusive financial accounts, i.e. those making it possible to accumulate payments and other funds until the beneficiary decides to use them, and make or receive payments from other persons in the financial system, that are accessible in terms of cost and distance¹.

With regard to social assistance programs in various regions of the world since the end of the nineties, there has been a proliferation of conditional cash transfer (CCT) programs, which provide economic assistance to beneficiaries (selected using a socio-economic criterion) only if they meet certain requirements or undertake certain actions (such as studying up to a certain educational level or visiting a doctor a specific number of times per year). Over the last fifteen years, at least 34 countries in various regions have enacted close to 57 such programs. In total, these programs have served close to 180 million beneficiaries. Less than half make use of some type of electronic distribution to deliver the funds to the beneficiaries (charts 1 and 2).

Although the electronic dispatch of payments in itself does not generate financial inclusion, it helps to set the stage for familiarizing and delivering financial services to the beneficiaries of social programs. The existence of an account in the beneficiary's name that receives the monetary assistance from these programs provides a secure means of adding value and its connection to an electronic payments system facilitates the mobilization of incoming (deposits) and outgoing (payments) transfers with other agents connected to the formal financial system. This way, electronic payment issuance creates the opportunity to offer other financial services to beneficiaries (such as savings, micro-insurance, dispatch and reception of drawings, remittances and/or transfers, and credit), given that the availability of an account can increase the probability that the beneficiaries will use the formal banking system in other ways than the simple reception of the funds associated to the program.

Therefore, by incorporating elements of financial inclusion to the distribution of social programs it is possible to increase the positive impact of monetary transfers by offering options that reduce vulnerability to the economic ups and downs of the poorest families, moderating consumption and providing a means to accumulate and protect their assets.

¹ Pickens M., Porteous D. and Rotman S., "Banking the Poor via G2P Payments", Consultative Group to Assist the Poor, Focus Note No. 58, December 2009. (CGAP 2009)

Chart 1
Means-tested transfer (CCT) programs by region.
Number of Countries, Number of Programs

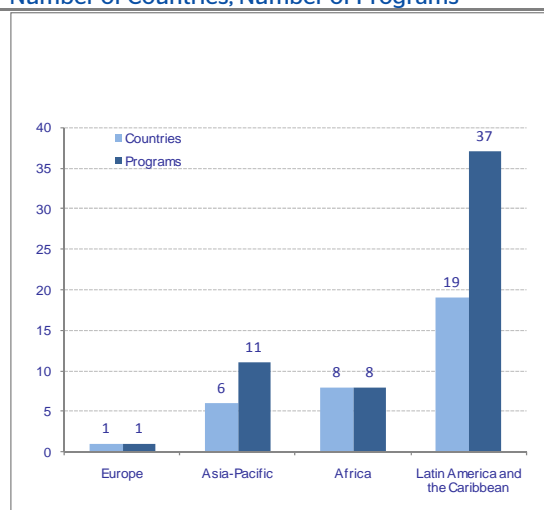
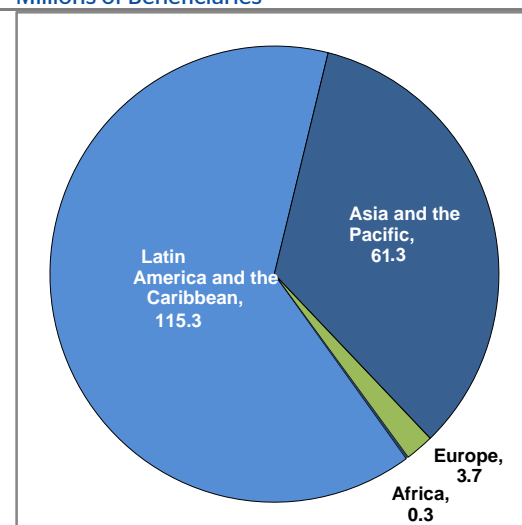


Chart 2
Means-tested transfer (CCT) programs by region.
Millions of Beneficiaries



Source: BBVA Research, with information from CEPAL, the World Bank, CGAP2009, MPRA2010 and NAF2009

2. Adoption of electronic payment channels for CCT programs in Latin America and the Caribbean

During 2010, in Latin America and the Caribbean (LAC), a total of 17 countries ran at the national scale at least 18 conditional cash transfer (CCT) programs². These programs assist almost 26.6 million families and have 115.1 million beneficiaries, which is equivalent to 22% of the total population where those programs have been enacted.

The number of beneficiaries served varies from a minimum of 185,214 in Costa Rica (Avancemos), to a maximum of 57.3 million in Brazil (Bolsa Familia). In turn, Mexico is in second place in terms of the largest number of beneficiaries served, with 27.3 millions through its Programa Desarrollo Humano Oportunidades.

² Database of non-contributive social protection programs in Latin America and the Caribbean. Comisión Económica para América Latina (CEPAL), available at: <http://dds.cepal.org/bdptc/> and Maldonado J.H., Moreno-Sánchez R., Giraldo Pérez I., Barrera Orjuela C. "Programas de Transferencias Condicionadas e Inclusión Financiera: Oportunidades y Desafíos en América Latina", International Development Research Centre, May 2011. (IDRC 2010)

Table 2

Means-Tested Transfer (CCT) Programs in Latin America and the Caribbean (2010)

Means-tested transfer programs in Latin America and the Caribbean (LAC) 2010			
Country	Program	Families attended	Beneficiaries
Argentina	Asignación Universal por Hijo para Protección Social	1,867,784	3,516,733
Bolivia	Bono Madre Niño-Niña Juana Azurduy / Bono Juancito Pinto	130,337	638,652 / 1,625,123
Brazil	Bolsa Familia	12,778,220	52,390,702
Chile	Chile Solidario	332,995	1,147,467
Colombia	Familias en Acción	2,598,566	11,693,547
Costa Rica	Avancemos	46,304	185,214
Ecuador	Bono de Desarrollo Humano	1,181,058	6,132,033
El Salvador	Comunidades Solidarias Rurales	102,450	508,320
Guatemala	Mi Familia Progres	591,570	3,253,635
Honduras	Bono 10,000 Educación, Salud y Nutrición	81,911	409,555
Jamaica	Program of Advancement through Health and Education (PATH)	N/A	307,000
Mexico	Programa de Desarrollo Humano Oportunidades	5,560,540	27,246,646
Panama	Red de Oportunidades	70,599	398,807
Paraguay	Tekoporã	99,015	554,484
Peru	Programa Nacional de Apoyo Directo a los más Pobres (Juntos)	471,511	2,593,311
Dominican Rep	Programa Solidaridad	764,913	2,103,429
Uruguay	Asignaciones Familiares	100,660	412,707
TOTAL		26,648,096	115,117,364

*For Chile, Guatemala, and Panama, the figure corresponds to 2008, and Jamaica corresponds to 2009.

Source: BBVA Research with CEPAL and IDRC2011 information

The reach of CCT programs, measured as the proportion between the number of beneficiaries of the programs and the total population of the country which runs them, varies between countries, with the lowest being 4% of the total population (Costa Rica) and the highest 42% (Ecuador). (Chart 3). These beneficiaries constitute the potential population to which financial services could be offered through the payment of financial grants by electronic means.

Chart 3

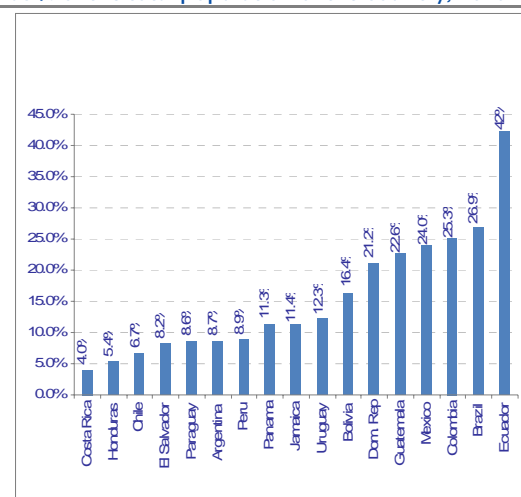
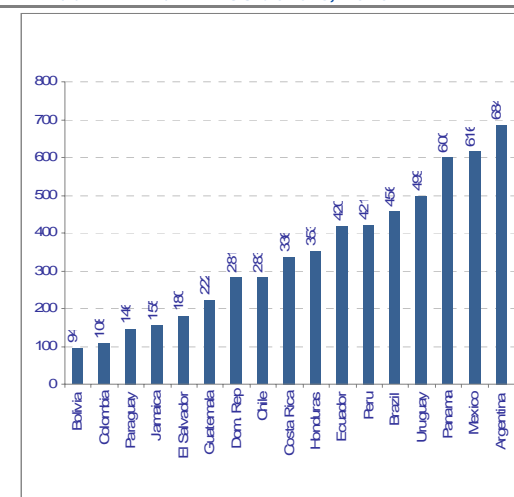
Beneficiaries of CCT Programs in LAC.
as % of the total population of the country, 2010


Chart 4

Amount received in CCT Programs in LAC
Annual minimum in US dollars, 2010


Source: BBVA Research, with information from CEPAL, the World Bank, and IDRC2011.

With regard to the minimum payment received by beneficiaries, in 2010 these received at least US\$94 (Bolivia) and as a maximum US\$684 in Argentina. In the case at hand, Mexico is also in second place in terms of offering the highest annual transfer, with a minimum payment of US\$616 yearly (Chart 4). Half of the 18 programs analyzed disburse the payments monthly or every other month.

The LAC region has distinguished itself by being a pioneer in the implementation of CCT programs. To what extent have advances been made in the region with regard to the adoption of financial inclusion elements within these programs?

According to a recent study from the International Development Research Center³, in LAC various payment channels coexist and they vary according to the degree of financial inclusion they provide to beneficiaries: from those that provide the support in cash or checks (implying the absence of elements of financial inclusion), through to the use of electronic cards (debit or prepaid, which may or not be accepted only in certain entities and for the acquisition of certain goods) and up to the use of savings accounts (fully functional for the use of financial services that are different from the mere payment reception and cash withdrawal function).

In 2010, twelve countries issued their CCT programs' funds through cash or checks, ten through electronic debit or prepaid cards and eight had the banking account payment option (Chart 5). In general, the cash payment option coexists with another electronic alternative and this study estimates that close to 17% of the beneficiaries of the CCT programs in LAC are receiving their payments in cash, 56% through electronic cards and 28% into a bank account. In other words, over 80% of the population which benefits from these programs was being served by way of mechanisms making possible the delivery of the assistance in a manner that facilitates financial inclusion.

Chart 5
CCT Programs Payment Methods in LAC.

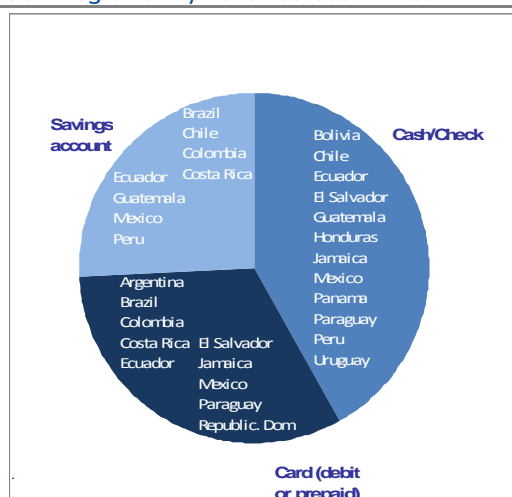
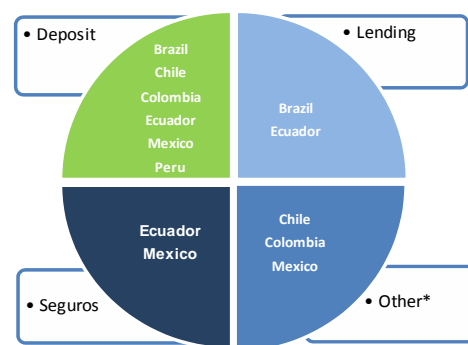


Chart 6
CCT Programs Financial Services in LAC



* Drawings, remittances, and/or transfers

Source: BBVA Research with information from Maldonado J.H., Moreno-Sánchez R., Giraldo Pérez I., Barrera Orjuela C. (IDRC 2011)

Deposits are the main financial services offered (Brazil, Chile, Colombia, Ecuador, Mexico, and Peru), followed by drawings, remittances, and transfers (Chile, Colombia, and Mexico), and to a lesser extent credit (Brazil and Ecuador) and insurance (Ecuador and Mexico). Chart 6

³ Maldonado J.H., Moreno-Sánchez R., Giraldo Pérez I., and Barrera Orjuela C. "Programas de Transferencias Condicionadas e Inclusión Financiera: Oportunidades y Desafíos en América Latina", International Development Research Centre, May 2011. (IDRC 2010).

3. Advances in the electronic payment of social programs Mexico

Mexico is not unfamiliar with this tendency; the Expenses Budgets of the Federal Government for 2010 and 2011 included measures to incentivize, among the dependencies and entities of the Federal Public Administration, electronic payment to the banking accounts of a) the beneficiaries of the grant programs; b) public servants, for salary payments; c) goods and services suppliers; d) persons contracted on a fee basis. The aforementioned was a measure to promote bancarization of public fund payees, reduce costs associated to the use of financial services, and exercise tighter control on resources spent. In this regulation, it is established that task programs to fulfill these requirements must set, as a deadline for the implementation of electronic payments, December 2012⁴. This means that the country is among those that has established the most ambitious and specific objectives to move forward in the adoption of systems facilitating financial inclusion.

Two of the most important CCT programs of the Federal Government are the Programa de Desarrollo Humano Oportunidades (Oportunidades) and the Programa de Apoyo Alimentario (PAL), which are run by the Secretariat of Social Development (SEDESOL) with a budget exceeding 73 billion pesos and reaching some 6.5 million families (over 34 million people) in 2011.⁵ Almost 5 million of the beneficiary families live around 135 rural towns in transition characterized by a high level of marginalization.

In spite of the fact that the financial infrastructure is still limited in this type of municipality, Oportunidades and PAL payments are made both through direct delivery and through payments into accounts, prepaid bank cards with chips and debit cards. Since 2006, an increasing proportion of the payments are made through bank accounts and cards, as part of the electronic payments migration program launched by the Federal Government (Chart 7). In keeping with the Expenses Budgets of the Federal Government, the objective of the Social Development Secretariat for 2012 is that direct deliveries be substituted in their entirety by electronic alternatives⁶. In order to achieve this objective, the strategy is based on the use of the branch office and correspondents network of Bansefi (Spanish acronym for National Savings and Financial Services Bank).⁷ In addition, Bansefi and Oportunidades have designed information campaigns so that beneficiaries accept and use the new payment channels.

It is estimated that, for the government, efficiency gains from achieving that the whole of these two programs be paid through electronic means would approach 8.3 billion pesos, or 0.1% of GDP. This amount represents close to 25% of the potential profits that could be generated through the implementation of electronic payments for the totality of government grants in Mexico⁸.

⁴Expenditure Budget of the Federation for Tax year 2011 and 2012.

⁵Source: SEDESOL, "Uno de cada tres mexicanos reciben apoyos en efectivo de Oportunidades o el PAL", Press Release Number 25/2011, 7 September 2011:

http://www.oportunidades.gob.mx/Portal/wb/Web/uno_de_cada_tres_mexicanos_reciben_apoyo_de_opor

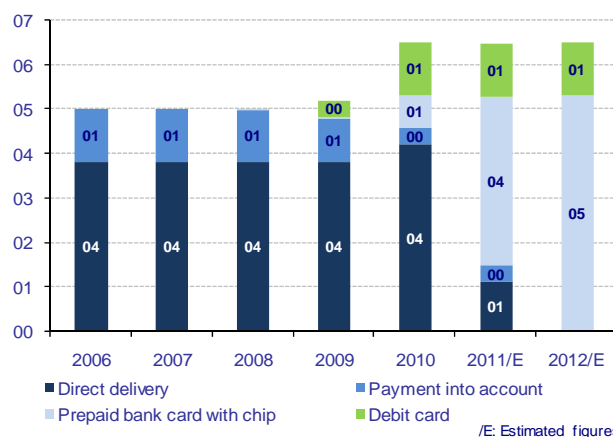
⁶Source: "Entrega de Apoyos Monetarios Oportunidades y PAL Modalidades y Mecanismos" Presentation, SEDESOL, November 2010.

⁷ Bansefi is the federal government's development bank, which aims to assist the popular savings and credit sector.

⁸ In **Situación Banca México (Mexican Banking Outlook) November 2010** details the assumptions based on which these estimates as well as those concerning the adoption of electronic means for other G2P payments in Mexico are made.

Chart 7

Payment of Monetary Grants in Mexico: Oportunidades and PAL by payment channel
Millions of Beneficiaries



Fuente: BBVA Research with data from the SEDESOL presentation "Entrega de Apoyos Monetarios Oportunidades y PAL Modalidades y Mecanismos", November 2010.

In the case of beneficiaries, a pilot program which saw point of sale terminals installed in 230 Diconsa stores in 2008⁹ to issue Oportunidades payments suggests that gains for transfer recipients are considerable.¹⁰ The results show that for beneficiaries who receive their transfers in Bansefi accounts, transaction costs of beneficiaries diminish from 30.1 to 0.49 pesos and opportunity costs from 16.9 to 2.2 pesos for those who receive their transfers directly. In addition, according to a poll carried out among 260 beneficiaries who participated in the pilot program, 99% of them prefer electronic payment to payment in cash with signature. It should also be noted that this preference for the new payment method seems to be linked with the possibility of having a safe means to keep money.

According to a recent study on differences in the savings behavior of Oportunidades recipients and other Bansefi account holders who live in urban areas, the average savings in the Oportunidades accounts is greater than the average savings in the traditional accounts of this institution (246 and 101 pesos, respectively), which appears to be due to the fact that Oportunidades beneficiaries chose not to withdraw the whole of the economic assistance received. Furthermore, as account holders gain experience in the handling of debit cards, the probability that they use them to make purchases in businesses instead of withdrawing cash from ATMs increases.¹¹

It has also been documented¹² that families who benefit from the Oportunidades program increased their levels of savings and investment, investing on average 12% of their grant into income generating activities (micro-enterprises). The program also increased the number of families who use banking services (2,889 of 3,187 families did so). In addition, payment through electronic means

⁹ Diconsa is a state enterprise charged with administering a network of community shops that provide staple food commodities to rural areas that are severely and very severely marginalized.

¹⁰ In *Situación Banca México July 2010* the benefits for businesses participating in the pilot program Oportunidades Diconsa are briefly described. Seira (2010) presents a more detailed analysis.

¹¹ For further details, see Seira, E. "Electronic Payments of Cash Transfer Programs and Financial Inclusion", Mimeo Instituto Tecnológico Autónomo de México, March 2010.

¹² Ribe H. y Vermehren A. "Adjusting Conditional Cash Transfer Programs to Urban Areas: Lessons from the International Seminar CCTs in Urban Areas, September 23-26, 2008, Cartagena, Colombia", presentation (Washington DC: World Bank, October 29, 2008)

helped families to reduce impulse buying. Likewise, a random experiment with 7,658 families in 320 communities demonstrated that for each peso received, 22 cents are invested by the recipient families.

Evaluation

Although the initial preoccupation is to transfer the grants to the beneficiaries in a secure and correct manner, the use of electronic issuance makes it possible to upgrade the receiving account into one that is financially inclusive that the beneficiary can use to save, make transactions to and from third parties, and gain access to other types of financial products. Therefore, money transfers linked to social programs have an important potential as a means of financial inclusion. In LAC significant progress has been made in the penetration of payment channels that facilitate the provision of financial services and although the adoption of these grant distribution mechanisms is relatively new, evidence is beginning to emerge that beneficiaries are indeed using the financial services offered. This evidence with respect to the existence of a demand of formal financial services from the low income population together with the fact that the programs have a high number of beneficiaries and involve considerable disbursements open a window of opportunity for commercial banking given that through these it could be possible to capture a great volume of recurring deposits, increasing the client base and obtaining a point of entry to offer other types of financial services such as insurance or credit, aiding in the financial inclusion of millions of low income persons.

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