In recent years, different approaches have emerged to enhance financial inclusion, from changes in the regulatory framework to the use of behavioral science to incentive the use of financial services. Therefore, an analysis of the results obtained might be useful for policy purposes taking into account that any effort to improve financial inclusion should be carefully designed and implemented. One of the approaches that have been recently used involves the use of social protection programs, which are directly aimed to reduce poverty and inequality. Many developing countries have built a bridge between social protection and financial inclusion, using the former as conduits to promote the latter. This approach will be explored in this research, focusing on the state’s role in the promotion of financial inclusion through the use of conditional cash transfers and pension funds.

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I. Introduction

Currently, there is a global recognition about the key role that financial inclusion plays in enhancing development and reinforcing the objectives of the Millennium Development Goals. Research on this topic has shown that access to financial services contributes to the improvement of social well-being; specifically reducing extreme poverty and supporting a more inclusive economic growth. Official figures from the Global Financial Inclusion Database show that more than 2.5 billion people do not have an account at a formal financial institution. This represents a huge gap that affects half of the world's adult population, which makes evident the relevance of this issue. Therefore, governments from developed and developing countries have strongly supported the scale of financial inclusion strategies in their policy agendas. These efforts are aligned to one of the newest World Bank goal, regarding the achievement of universal financial access to all working-age adults by 2020.

Despite this worldwide concern, most of the governments from developing countries have recently turned their attention to this issue. While they have already started to run their own national strategies, they still face several structural limitations that compromise the successful implementation of these initiatives. Unlike the Global North, they had not adapted their financial systems to the changes in their economies neither to the evolving needs of their citizens. Furthermore, new technologies and the wider access to information brought by the globalization process had not been translated in a better provision of financial services. Moreover, this problematic starting point acquires special relevance for those countries that currently enjoy competitive rates of economic growth but still suffer from high levels of social exclusion. In this context, urgent action is needed to avoid excluding the poor and vulnerable from what seems to be a strong toolkit for development.

In recent years, different approaches have emerged to enhance financial inclusion, from changes in the regulatory framework to the use of behavioral science to incentive the use of financial services. Therefore, an analysis of the results obtained might be useful for policy purposes taking into account that any effort to improve financial inclusion should be carefully designed and implemented. One of the approaches that have been recently used involves the use of social protection programs, which are directly aimed to reduce poverty and inequality, and which have among the most widespread programs, conditional and unconditional cash transfers. Many developing countries have built a
bridge between social protection and financial inclusion, using the former as conduits to promote the latter. This approach will be extensively explored in this research, focusing on the state’s role in the promotion of financial inclusion through the use of conditional cash transfers and pension funds. The paper would assess the case of Peru, whose government has not been achieved much so far, but whose experience could enrich our understanding in this topic.

The dissertation is structured in the following way. Chapter 2 introduces the definition, relevance and measures of financial exclusion. It discusses its impact on development and on people’s well-being, covering the main global policy frameworks. In Chapter 3, the connections and linkages between social protection and financial inclusion programs will be reviewed, establishing the benefits and limitations of using cash transfer programs delivered through electronic systems, emphasizing on the importance of basic bank accounts and assessing the Peruvian Case and its experience implementing this approach through Juntos, its conditional cash transfer national program. The study aims to evaluate the effectiveness of this growing mechanism and to provide new insights about the factors that foster an inclusive environment of financial services. Finally, conclusions and policy recommendations revealed by the analysis are outlined in Chapter 4, looking forward to further evidence-based analysis from other countries.

II. Literature Review

II.1 Financial Inclusion

Financial inclusion is typically defined as the access and use of financial services by all segments of the population. This concept has reached an important place on the policy debate due to growing evidence that reveals the positive correlation between full access to financial services and a sustainable process of development. Based on this evidence, a significant number of countries have already set targets and goals to promote a more inclusive financial sector. However, I believe that in order to have a better vision of what policymakers really need to achieve, a more comprehensive definition is needed to cover the real extent of the problem. Regarding this point, the Center for Financial Inclusion (CFI) uses a multidimensional approach to define a fully included financial system.
The Center defines financial inclusion as ‘a state in which everyone, including disabled, poor, rural and other excluded populations, have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients’. This definition goes beyond the mainstream policy goal of expanding the access, and highlights other relevant dimensions of the problem such as the quality of the services, the type of user and the range of providers. In this light, Regan and Paxton (2003) proposed a second generation of financial inclusion policies, suggesting an update of the government’s agenda to reflect this broader definition. The authors go further the access and claim that appropriate products and services must be available for excluded population. In addition, they argue that people need the opportunity and the skills to make informed financial choices that allow them to access their rights and fulfill their responsibilities as citizens.

II.2 Measures

The 2014 Global Financial Development Report (GFDR), published by the World Bank, states that financial inclusion and access to finance are different issues. The report adds to this by explaining that the lack of use does not necessarily mean a lack of access, and pointing out the need to identify the real sources of financial exclusion. Traditional measures have been generally based on the lack of access, ignoring the other reasons that make people do not use financial services. This gap is now covered by the Global Financial Inclusion Database (Findex), which is the only official source of cross-country data on self-reported reasons for not having a formal account. By exploiting this data, researchers could identify the access barriers and the population groups that are excluded. These indicators will also let them have a better understanding of users and non-users financial behaviors. Findex provides information of how adults in more than 148 countries save, borrow, make payments and manage risk. The indicators are built with survey data from interviews with more than 150,000 nationally represented and randomly selected adults age 15 and above during 2011\(^2\). Among the most important indicators, Findex reveals that half of the world’s population (2.5 billion people) does not have a bank account at a formal financial provider. This deficit is particularly different across countries. In the developed world, the share of adults with a bank account is more than twice the same share in developing countries; and if we examine the actual use of these accounts, the

\(^2\) The 2014 Global Findex will be released in April 2015
difference is even larger. Furthermore, data shows that excluded population shares the same hopeless characteristics; these people are poor, young, unemployed, less well educated and come from rural areas. Moreover, surveys disclose that a country's account penetration is negatively correlated to its level of income inequality and to the instability of the state. As regard of the gender component, 1.3 billion women globally remain excluded, and concerning firms, access barriers seem to be more prominent to smaller and younger companies. All these facts show a close relationship between social and financial exclusion, which makes essential the intervention of the government through policy changes.

II.3 Relevance

Financial inclusion matters and it does for several reasons. Extensive evidence reveals that financial inclusion contributes to the achievement of social inclusion. People with financial services are empowered to cope with fluctuations of income, to manage extra costs and to plan for the future (Regan and Paxton, 2003). Without access to basic financial services, people will find money management a hard and expensive task. In fact, there is a poverty premium that poor households must pay due to the limited financial options of their status. This premium comes in the form of excessive loan interest rate, as they need to rely on money lenders; missed discounts in utilities, goods and services' bills, as those can only be accessed by people who have access to the full range of banking payment methods; and largest losses due to the lack of insurance protection (Strelitz and Kober, 2007). Nowadays, a secure place to store money, affordable credit and comprehensive insurance and pension funds plans are essential instruments to anyone who want to plan its future, avoid risks and take early action in case of short-term and long-term contingencies (H.M. Treasury, 2007). It is evident that poor people need access to get the most from financial services. Otherwise, citizens could face more vulnerability to poverty, over-indebtedness, illness, and unemployment.

According to the World Bank (2014), if not tackled, financial exclusion can lead to poverty traps, inequality and lower growth. Banerjee et. al. (2009) claim that there are significant efficiency and productivity losses associated with preferential access to finance by the better off. Access to savings, pension funds and insurance is a fundamental aspect for development; but it remains restricted for the poor due to several barriers. These obstacles prevent the poor from making an effective management of their money, blocking their progress. In addition, they reinforce disparities and limit
the developmental power of social protection benefits and remittances. Regarding this point, Beck et al. (2004) found a connection between financial inclusion and reduced income inequality, arguing that the expansion of financial system seems to reduce Gini coefficients, a measure of inequality. In this context, what development requires is the removal of poor economic opportunities (Sen, 1999). Sarma and Pais (2011) reinforce this by claiming that financial inclusion facilitates the efficient allocation of productive resources. In fact, financial companies can lead to higher productivity and growth, by mobilizing individual savings and making them available for investment. Further, the existence of a more inclusive financial sector can encourage entrepreneurs to expand their businesses and facilitate the adoption of new technologies into new areas (DFID, 2004). For the reasons mentioned above, all the stakeholders must ensure citizens participate and receive the benefits of the financial system by easing the full access to it.

II.4 Challenges

Over the last decades, policy circles from developing countries have recognized the importance of an inclusive financial system, launching initiatives in conjunction with the private sector and with the support of international agencies to overcome financial exclusion. The commitment to these matters has been reflected in the incorporation of these initiatives on top of these governments’ agendas. While significant progress has been made in achieving a more inclusive financial system, there are still several challenges to tackle. The most important issues identified by researchers are related to the lack of coverage and capacity of financial providers, financial illiteracy, unaffordable costs, unsuitable services and informality.

The role of the government is critical in this process. Authorities have the power to create an environment that foster financial inclusion through state-driven interventions such as regulatory changes and partnerships with the financial industry (Leeladhar, 2006). Therefore, policymakers could begin by establishing an inter-sector committee, which main tasks would be the design and implementation of a national strategy and the assessment of its progress. The strategy must be incorporated into the national budget and it should be subject of subsequent monitoring to prevent corruption. In this context, as low-income countries face deficits of budget, infrastructure, and administrative capacity; governments may be benefitted by the participation of the state. By encouraging the private sector to collaborate, better results could be achieved regarding the
expansion of coverage, improvement of infrastructure and connection of people from remote areas to the system. However, this special partnerships need to be beneficial for both parts. A balance between consumer choice, transparency and private profitability is indispensable.

Over the past years, different processes have been benefitted with the use of technology and financial inclusion is not an exception. In fact, policymakers have recognized the potential of innovative technologies to expand financial access, through the improvement of infrastructure and payment systems. Better technologies for credit reporting and borrower identification have reduced the costs of intermediation, contributing to include more people into the financial system. The most relevant policy initiatives embraced by developing countries are related to mobile banking, correspondent banking, and electronic credit information systems.

As mobile phones are widely used among the population, irrespective of their economic and social status, the idea of mobile banking seemed very promising toward financial inclusion goals. As a consequence, payments started to be transferred through mobile system and users now can receive, transfer and deposit money, which is a much safer way to manage their finances (World Bank, 2012). Currently, this mechanism is mainly used for small-transactions; however, it is expected to evolve according to the changing needs of the population. For instance, it could be very helpful for people who receive or send remittances. As it will be examined in the next chapter, several governments have already initiated government-to-person (G2P) payments to enhance their strategies of financial inclusion. It must be noticed, however, that policymakers must make emphasis on the delivery of financial education programs, while promoting the use of mobile banking and on the design of a clear and conducive regulatory framework. Moreover, people need to be reminded about the importance of saving through this platform to ensure genuine progress in their lives. Public authorities play an essential role raising the attention of the public on these new payment systems (Cirasino et. al., 2007)

Regarding innovative channels, the use of correspondent banking represents an illustrative example. A banking correspondent is defined as a representative of a bank who operates transactions on behalf on one or more banks outside the bank’s branch network. They may include post offices, grocery stores, supermarket, or gasoline stations (World Bank, 2014). The positive impact of correspondent banking on financial inclusion has been explored by several researchers. For
instance, Allen et. al. (2012) found out that the likelihood of using a formal bank account rises by up to 5% points through the implementation of correspondent agents. The case of Brazil exemplifies the potential of this mechanism. In Brazil, the objective of the state was to reach out distant consumers and communities that had not been previously active in the financial system. To achieve this, the central bank encouraged partnerships between financial providers and retail establishments, while the state progressively reduced the restrictions on correspondent banking. Additionally, the right to use post offices as correspondents was auctioned among private banks, which attracted the attention of other banks to look for new correspondent networks. Some institutions have also implemented riverboat banks to reach communities along the Amazon. In five years, this strategy increased the number of bank branches in 12%, showing the potential of these initiatives to improve the access to unbanked households and expand the portfolio of financial providers. Likewise, Colombia and Mexico have exploited the same channel, achieving an expansion of their own financial network. Further research is still needed to design an appropriate and flexible regulatory framework, specifically oriented to protect and help those who are more vulnerable.

Concerning the role of financial providers, the contribution of microfinance institutions (MFI) to the inclusion of new users into the financial system cannot be ignored. According to the CFI, over the past two decades, MFI have included more than 150 million customers from the previously excluded sectors. In particular, microcredit has been recognized as a powerful tool to overcome poverty and help low-income earners to improve their livelihoods. Other microfinance services, like micro-insurance and micro-savings offer also give the poor the chance to invest in their small businesses, to finance their children’s studies and to be protected against eventual financial shocks (see Karlan and Zinman, 2007; Cotler and Woodruff, 2008). However, some studies have questioned the convenience of its use based on unsuccessful experiences of countries, where the expansion of microcredit had a negative impact on people’s well-being. As regards of this point, Ghosh (2013) examined the case of India, which has one of the largest microfinance sector and also have experienced one of the biggest microfinance crisis. The Andhra Pradesh state experienced a proliferation of MFI, who encouraged poor households to take multiple loans, from different sources, often only to repay other lender. This, in conjunction with strict enforcement of payment, generated chains of defaults and over-indebtedness among users. As the author claimed, microfinance could be a double-edged sword; therefore, it must be carefully promoted and monitored. In fact,
microfinance alone will not achieve any progress (Chibba, 2009). It must be complemented by financial literacy and financial counseling programs to avoid inappropriate practices.

This point brings into the discussion another challenge, the implementation of financial education campaigns to promote a healthy use of the system. By encouraging financial literacy, potential clients will gain knowledge and skills that will let them take advantage of financial services. Another important benefit of having well-informed users is the improvement of their confidence and effectiveness when using the system. It is generally believed that only poor or vulnerable people need to improve their level of financial literacy. Nevertheless, this is a huge mistake. Even though, it is more likely that better off people have access to financial services, there is not any guarantee about their capacity to manage their own financial well-being (Perry, 2008). Alarming figures of bankruptcy, low savings, and over-indebtedness are some of the outcomes of financial illiteracy, which may endanger the solvency of users (Fox et. al., 2005). Therefore, campaigns of financial education must be aimed to people of all ages, and across all socioeconomic sectors. Users must recognize that the access to financial services comes with the responsibility of taking care about their own finances. Actually, after the impact of globalization and liberalization on the welfare state, governments from developing countries have shifted the responsibility of taking appropriate financial decisions to the individual (Lavinas, 2013). Authorities expect self-reliant citizens within an evolving and complex financial system that isolates those without skills and knowledge to make the right choices (Regan and Paxton, 2003). Therefore, governments must design comprehensive financial education programs and implement them at a national level, making emphasis on preparing new users to exploit the potentials and avoid the risks of the system. This will help to create independent citizens, who would be more confident to take care of their families and their future.

Besides, policymakers must bear in mind that not all financial services suit in a convenient way the needs of all the population. Therefore, the provision of financial counseling to the clients that are recently included in the system becomes a fundamental complement. After giving people the access, it is extremely important to monitor the evolution of their debt in order to make a continuous assessment of their repayment capacity. It is extremely important to raise awareness and to orientate users to a more responsible use of financial services (Atkinson, 2008). Some countries have already make progress launching interesting initiatives to avoid these issues. For instance, the UK has implemented free helplines to advise and help people with debt problems (H.M. Treasury, 2007).
However, this type of one-on-one counseling may be unaffordable for developing countries. Thus, the challenge for policymakers would be to find innovative and cheaper ways to deliver financial counseling programs that catch the attention of new and former users (Braunstein and Welch, 2002).

Finally, it is important to mention that poor people do perform financial activities even though they do not use the formal financial system. The high levels of informality that surround their livelihoods make them use alternative mechanism to save, borrow and make payments. People, who face access barriers to the formal sector, rely on their own scarce resources. They are excluded from social protection benefits provided by the state, such as health care and pension funds schemes. Mostly, this exclusion is not voluntary; thus, it becomes a problem that needs to be tackled through policy changes (Allen et. al., 2012). In this context, an inclusive financial system can help to reduce the usage of informal sources of credit, which are often exploitative (Sarma and Pais, 2011). Efforts to increase the scope of formal credit agencies were launched since the 1950s in India under the label of social banking. The expansion of formal sector credit, through the creation of cooperative societies and regional rural banks, was expected to replace informal moneylenders. However, social banking was just a partial success due to the persistence of informal borrowing. Policymakers did not take into account the way in which informal sector operates, factor that seems to be crucial to ensure the permanency of clients into the formal credit sector (Kamath, 2007).

What developing countries really need is well suited financial products, delivered with responsibility, competitive, affordable; and attractive enough to defeat other informal options. According the figures; affordability, travel distance, and lack of documentation are the most important reported barriers that prevent people from having a bank account. Thus, especial attention of policymakers must be placed on them. In this light, the importance of the financial products design should be carefully studied as the features of a product have a considerable impact on its use. This is particularly important for credit products because the product design could affect the repayment of the user (World Bank, 2014). As Kamath (2007) claimed, financial inclusion has to go beyond the provision of credit to the poor. The challenge is to incorporate the logic, the behavior and the social norms of the poor into new and tailored financial policies.

II.5 Global Policy Frameworks
As can be seen, an effective financial inclusion strategy involves improvements in different fields and the participation of different actors. Hence, a complementary group of actions seems to be needed in order to tackle the multidimensional problem of financial exclusion. During the last years, policymakers from multilateral development banks, international organizations, alliances, government forums and think tanks have been working toward the achievement of a financially included world. More than 50 countries have made commitments to expand financial inclusion and several proposals have been outlined based on previous policy lessons, field work and extensive research on financial inclusion. According to the World Bank, a financial strategy is a road map, ideally prepared by the public sector in partnership with the private sector to encourage broad innovation and address barriers to FI. It can be characterized by six components: Data and diagnostics; Targets and objectives; Strategy Building; Public Sector Actions; Private Sector Actions; and Progress Monitoring. Each component must be carefully planned and implemented to ensure sustained progress and consensus toward the FI goals. Moreover, the concept of responsible financial inclusion strategy emphasize the importance of financial capability and consumer protection as the components that lead to stronger positive impacts and lower risks.

One of the main actors involved, The World Bank, has recently launched the Financial Inclusion Support Framework, which main objective is to boost the effectiveness of reforms and other country-led actions that help achieve national financial inclusion goals and strategies. The framework was an initiative recognized by the G20 Ministers of Finance, the Alliance for Financial Inclusion and partner agencies. Regarding the funding, it starts with $25m and further in final stages of approval. FSIF supports policy and regulatory reforms, financial infrastructure development, and other measures that use private sector tools to widen the range of financial services for low-income people and SME that are currently unbanked or under-banked. When implementing evidence-based reforms, the FISF support the synergies between governments, private sector and civil society, as they have a greater impact on financial inclusion. There are 3 components to FSIF. First, Country Support Programs, which provide technical assistance and capacity building programs from the World Bank Group. Second, the Financial Inclusion Challenge, which distributes WB subsidies to countries, based on results achieved in terms of extending or improving access to financial services. This challenge aims to accelerate financial sector response in taking advantage of FI reforms and meeting targets. Third, the component of Research and Models, which refers to the analysis generated by the World Bank
Group relevant to the design and effective implementation of reforms; which would be shared afterwards through workshops.

Another important global actor is the Center for Financial Inclusion (CFI), an action-oriented think tank, whose biggest challenge is build a financial sector that reaches everyone with appropriate and quality services. The Center launched the Financial Inclusion 2020 Project to promote a movement that mobilizes stakeholders around the world to achieve full inclusion. It uses the year 2020 as a focal point to achieve clearer agreement among players, greater unity among policymakers and new relationships of cooperation. Based on the results of a global survey of 2011, the CFI identified five areas that compose the project roadmap principles; addressing customer needs; technology-enabled business models; financial capability; client protection; and credit reporting. The relevance of this proposal has been globally acknowledged as it incorporates geographic diversity and the perspective of a range of stakeholders. Indeed, the project has been backed up by the President of The World Bank. It seems that this is the best moment to encourage dramatic leaps in inclusion, technology is making services more available, data is increasingly available, and the importance of a client focus is widely recognized. In addition, awareness across the global level is involving high level policymakers. Even the G-20 has strongly supported the efforts to achieve universal access to financial services. The forum has its own Financial Inclusion Expert Group and has launched a Global Partnership for Financial Inclusion and a Financial Inclusion Action Plan.

II.6 Financial inclusion and People

The efforts to promote an inclusive financial system are aimed to improve the livelihoods of non-users, group that is mainly composed by poor and vulnerable people. In this light, taking into account their limitations, public authorities need to have extra care regarding their financial well-being. Recently, client protection practices have gained more relevance and must be extensively promoted. It also becomes necessary that policymakers understand what motivates non-users’ financial behavior. This will help them to design more effective policies that could be permanently embraced by new clients. In 2009, CFI launched The Smart Campaign, aimed to promote client protection practices in the financial services industry. These practices are summarized in the following seven core principles: appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data,
mechanisms for complaint resolution (Guzmán, 2013). If followed, these principles have the potential to build a more client-focused industry, benefitting the quality of portfolio and preserving a healthy and responsible financial system. Furthermore, the possibility to guide the financial behavior of users to help them take the best financial decisions has recently attracted the attention of policymakers. For example, the use of commitment accounts, where a user deposits certain amount of money and renounces access to the cash for a certain period of time has proved to be helpful for people that want to save for a certain purpose but could not maintain a permanent saving behavior. On the same line, Urquizo (2012) analyze the rural financial behavior in five countries from Latin America and the Caribbean. The research provides an overview of rural residents’ patterns of savings, investment, credit, and risk management. This material is a useful reference for policymakers who want to understand the attitudes of their targeted group toward financial service, design accurate strategies and establish baselines for ongoing monitoring. Indeed, well-designed interventions are key elements to improve the financial capability of users, representing an alternative that is worth to explore (World Bank, 2014).

III. Cash Transfer Programs as channels to promote Financial Inclusion.

III.1 Overview

Conditional Cash Transfers (CCTs) are regular monthly income payments conditional upon the fulfillment of certain requisites, like children school attendance or vaccinations campaigns. They are oriented to break intergenerational poverty and create opportunities for the poor since the beginning of their lives. CCTs have been widely used by policymakers from developing countries, becoming the mainstream tool of social policy. The motivation behind these transfers is that an injection of income would push families out of poverty, while strengthening human capital through the accomplishment of conditions. Several studies have revealed a positive impact of CCTs on the most important social issues, such as poverty, gender empowerment, education, health, and financial inclusion (Bastagli, 2009). However, the extent of these benefits is context-dependent and relies on the state capacity to manage each program. In particular, researchers and policymakers have been recently interested in exploring the potentials of CCTs to enhance financial inclusion, taking into account its upcoming
relevance on the global development agenda. There is strong evidence that CCTs have had a positive effect regarding saving and investment by recipient individuals and families (Zimmerman and Moury, 2009). In the same vein, Hannig and Jansen (2010) claim that social safety nets can boost financial inclusion, when benefits are delivered through basic bank accounts in the formal financial sector. Moreover, Aker et. al. (2011) highlighted the benefits of using mobile cash transfers as a more cost-effective mean of implementing these programs. Their results suggest that its use on remote rural areas would be beneficial for excluded people, especially those with limited road and infrastructure. As can be seen, policymakers must take into account the potentials of CCTs to design more innovative ways to connect beneficiaries with the formal financial sector.

III.2 Delivery of G2P Payments

Bold et. al. (2012) state that among the different payment mechanisms; the most used in low and middle income countries are cash, limited purpose instruments and financial accounts. Recipients that select cash need to appear at a particular payment point and at determined time, in order to receive its payment. In the case of limited-purpose instruments, beneficiaries receive their transfers into a notional account earmarked for the recipient. This provides more alternatives of times and locations. However, money cannot be saved indefinitely, cannot be accessed outside dedicated infrastructure; and funds from other sources cannot be deposited there. On the other hand, financial accounts do not have any of the previous limitations, representing the most efficient mechanisms of G2P payment delivery. In fact, several countries have been adopting the use of financial accounts as the mainstream payment delivery mechanism.

III.3 G2P Payments and Financial Inclusion

Giving cash transfers’ beneficiaries the opportunity to hold a bank account is the first step to fully include them into the financial system. Barrientos (2008) indicates that in low and middle income countries, an important proportion of beneficiary households save a small fraction of the transfer. Thus, they could take advantage of their newly bank accounts by using them as a storage instrument for their savings. In addition, as banks would be able to assess and record their cash flow patterns, new users would progressively gain access to other useful financial services. Mostly, types of services, from which these people were previously excluded (Bold et.al., 2012). It seems that providing people with instruments for a safe storage of their money, empowering their transaction
capacity and facilitating the access to these services through branchless banking builds the foundation for promoting G2P payments as a new approach to overcome financial exclusion. The use of social protection programs has a positive impact on financial inclusion and vice versa. Financial services can contribute to strengthen social protection, by letting the poor participate more fully in the economy and developing a fuller sense of citizenship (Barrientos, 2008). In the cases of developing countries that have been experiencing years of sustained economic growth, new users could also have a fuller share of the economic benefits.

Another positive link between financial inclusion and G2P payments is related to the costs of delivery. It is generally believed that electronic delivery of G2P payments into financial accounts is much cheaper than cash. The management of cash is time-consuming, and involves geographic constraints, major transaction costs and risks. Currently, there is enough evidence to support this assertion coming from countries that have already adopted this mechanism, like Brazil and South Africa. Nevertheless, there are countries like Colombia and Mexico, where cash payments are cheaper due to the lack of infrastructure. It is more likely that electronic costs decrease over time if social programs are aligned with national strategies of financial inclusion that support simultaneous investment in infrastructure and partnerships with private financial providers (Bold et. al., 2012).

Finally, Pickens et. al. (2009) argued that the migration to electronic payments will help to reduce leakage. Developing countries suffer from problems of grand corruption within governmental institutions to daily issues of petty corruption that are spread among the population. As a consequence, lots of public resources are drained. To overcome these problems of fraud and corruption, some governments have implemented unique identifiers, such as personal identification numbers (pin) or biometric authentication. However, this solution has two limitations. First, if the fraud comes from the registration phase, the leakage will persist. Second, the implementation of these mechanisms implies special technological infrastructure that are not affordable for all countries. In this case, the use of financial accounts is again a good alternative. If G2P payments are deposited in personal accounts, which are under the control of the recipient, the opportunities for corruption will be reduced.

III.4 Electronic G2P Payments
Bold et. al. (2012) reveals a growing trend that dispenses government payments directly into a formal bank account with the objective to promote financial inclusion. In these cases, policies of social protection and financial inclusion merge to accomplish developmental benefits from cash transfer schemes. Consultative Group to Assist the Poor (CGAP), a global partnership of 34 leading organizations that seek to advance financial inclusion, adds to this by arguing that innovative payment delivery mechanisms have the potential to bring banking services to beneficiaries. Based on that, in 2006 the CGAP launched the program Technology and Business Model Innovation, which works with financial providers and regulators to deliver financial services through new technologies. The program emphasizes on the need of building knowledge about the beneficiaries’ behavior and the financial management of their cash transfers. In addition, it highlights the importance of strengthening markets, and promoting regulations that allow the expansion of financial coverage in order to reach the unbanked population. In this light, governments have started to provide regulatory flexibilities based on a modernization of the payment system, through the adoption of mobile banking technologies, correspondent banking and the creation of basic bank accounts (World Bank, 2009).

As regards of basic accounts, the government simplified the design and eased the documentation requirements of this financial product. Additionally, these accounts typically have very low or free charges in order to widespread its use among low-income people, who need to make small-amount transactions (World, Bank, 2014). The assessment of policies, which encourage the private sector to provide and incentive the use of basic accounts, has shown a positive impact on both financial and social inclusion. Indeed, results from field experiments show that the provision of saving accounts, for savings and payments services; increases consumption, investment, productivity and income, among others (Kumar, 2006). Therefore, several countries are currently promoting the use of these accounts as part of their financial inclusion strategies. For instance, Bolsa Família (see Kumar, 2006, Bold et. al., 2012) is a conditional cash transfer program led by the Brazilian government, which serves nearly 14 million families. As these transfers involved payments, the Brazilian government identified the potentials of using them as channels to promote financial inclusion. Recipients of these transfers, generally poor people, would be allowed by the government to receive payments via free bank accounts. This approach has boosted the number of basic accounts, and has also lowered the delivery costs of the transfers. Governments from developing countries have identified the potentials of using their power to change the interactions of their social program beneficiaries with the formal
financial system (World Bank, 2014). Another related example is the case of India, where the government has recently begun to deposit pension and scholarship payments directly into bank accounts of almost 250,000 people. These reforms have the potential to expand the usage of formal financial services among the poorest and vulnerable individuals, who happens to be the main beneficiaries of social assistance programs. The challenge for public policy is to ensure through parallel public investment that appropriate financial infrastructure is available for the users. In the case of Latin America, the Brazilian success motivated the implementation of similar approaches in Colombia, Mexico, Chile and Peru. The case of the latter will be examined in the following section.

III.5  Issues of G2P Payments

Pickens et. al. (2009) identified some possible issues of the G2P payments mechanism that need to be considered when implementing this approach. To begin with, the authors call into question the affordability of building inclusive financial services through social protection programs, considering the lack of infrastructure and budget in developing countries. Branchless banking could be an answer, because if the bank is located too far away, the beneficiaries would probably just withdraw the totality of the transfer in one go. If affordable, this approach requires changes in the regulatory framework and the cooperation of the authorities involved. Therefore, policy lessons from other countries that have already successfully implemented this approach should be the base on which policymakers design the most appropriate normative.

Furthermore, it is important to establish if access guarantee usage. Bold et. al. (2012) claimed that from the demand-side analysis, recipients welcome the convenience of electronic payments but only few automatically use their new bank account. Therefore, the benefits of using the system must be clear and explicit. People must be convinced that using the system is worthy in order to keep using it. Also, they need to feel confident and comfortable when using a new service. Thus, the quality of the services is crucial to fulfill the recipient’s needs and preferences. Last but not least, the profitability for the private financial provider was questioned. As in any other business, there must be economic incentives that make providers to invest in these inclusive accounts. Regarding the last argument, Porteous (2009) suggested that the overall client relationship, which would include cross-selling; the entire portfolio of the product, in this case savings as a means of funding; and the strategic
positioning for other business toward the relationship with the government, provide enough incentive to private providers to join the financial inclusion cause.

III.6 Juntos - The Case of Peru

Currently, Peru has strong macroeconomic foundations that have benefited the growth of the financial system. However according to 2011 data, only the 20% of the population over the age of 15 and the 8% of people from the poorest sectors have a formal saving account. In addition, only 12% of the population over the age of 15 had access to a loan between 2010 and 2011. Moreover, in Peru, more than 97% of the firms are Small and Micro Enterprises (SME). These businesses generate employment for the 60% of the active economic population and contribute to the 42% of the GDP. Nevertheless, and despite its obvious importance to the development of the country, SME credits only account for the 16% of the total of loans granted by the Peruvian financial system. As these figures show, Peru represents an unexplored market, where several opportunities in banking and microfinance are waiting to be exploited. Looked through social policy lens, Peru has high levels of social inequality with almost 5 million citizens marginalized due to poverty and lack of basic public services. It is, therefore, evident that Peruvians need social programs that encourage both social and financial inclusion. Regarding this point, the government launched the program Juntos (“Together” in Spanish) in 2005, a program of conditional cash transfers, which main goals are the reduction of poverty and inequality; and the support of social inclusion (De los Rios and Trivelli, 2011). The program has been growing a lot through the years and currently, more than 650 thousand of people in situation of extreme poverty and exclusion are recipients of Juntos’ transfers. The Ministry of Development and Social Inclusion (MIDIS), whose goal is serving especially marginalized populations within Peruvian society is the current administrator of Juntos, and it was also designated to lead the policy process of financial inclusion, which was framed in a state interest approach, as a key element of the government national goal of financial inclusion. In this light, since 2009 Juntos started a pilot project entitled ‘Savings Promotion Amongst the Women Beneficiaries of Juntos’, with the objective to promote the use of financial services, especially the use of savings accounts. (De los Rios and Trivelli, 2011). This pilot involved the participation of the Peruvian National Bank (Banco de la Nación). This bank has the biggest financial coverage in Peru and contributed to the cause acting as a transfer platform, by providing a free of charge saving account to every recipient, since the

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3 Figures extracted from The World Bank’s Global Financial Inclusion Database: G20 Financial Inclusion Indicators.
beginning of their enrollment. According to figures of MIDIS, the pilot started targeting 3,700 families and has already expanded to 24,000 families. The pilot was comprised by training and financial sensitization, financial support and incentives. The first component was oriented to improve the financial literacy of recipients, in order to help them be more confident about the use of their accounts and give them some tips regarding financial management. The second component was related to financial counseling. Facilitators scheduled bimonthly visits to the local women leaders seeking to monitor their account usage and encourage them to actively take advantage of the benefits of the system, highlighting their important role in the success of the program. Finally, the third component involved the implementation of saving incentives among the recipients. The incentive was a bimonthly basket of groceries (equivalent to $60) given to two mother per district. The reward was received in exchange of the accomplishment of the conditions established to receive the transfer; have positive balances in the account; and have not been suspended by the program in the previous month. Through this mechanism of incentives, public authorities wanted to influence the behavior of recipients, reinforcing the importance of complying with the conditions of the program. In addition, this strategy contributed to the promotion of a healthy savings behavior pattern.

The study of the results of this pilot shows that the 'CCT recipients see the savings account as a tool that allows use their money better, and keep some resources immobilized in the accounts so they can invest in activities that will improve their children’s quality of life or enable them to create new sources of income’ (De los Rios and Trivelli, 2011:13). Data shows that savings have been grown progressively and maintained in the two districts where the pilot was implemented. However, these savings are concentrated in the lower ranges of savings (0-30 US$ per beneficiary). We cannot forget that both financial and social inclusion objectives can only be achieved with simultaneous investment on basic infrastructure and public services. Even though the Juntos pilot program provides access to basic bank accounts to all the recipients, more than 50% of them did not know that they had a savings account that they could use. This indicates the severe lack of financial knowledge among the targeted population. Beneficiaries were completely unaware of the potential benefits that having a bank account could bring for them and their families. In fact, less than 1% of them knew what a bank statement, a voucher, or an interest rate was (De los Rios and Trivelli, 2011). This demonstrates that financial and social inclusion policies alone would not achieve any permanent result. Concerning this issue, the government of Peru launched a National Financial Inclusion Strategy in October 2012. The
strategy involves the participation of the Ministry of Economy (MEF), the Superintendence for Banks, Insurance and Private Pension Funds (SBS) and the Central Reserve Bank of Peru (BCR). The aim of this strategy is to improve and expand the access to financial services, whilst recognizing the importance of financial education and consumer protection. The first stage of this strategy was initiated on February 2013, when MIDIS approved the Guidelines for Financial Inclusion4. The document describes MIDIS general responsibilities as the leader of the process, and set the policy main goal, the inclusion of one million new users into the private financial system by the year 2016. These users will come from sectors in process of inclusion, and will be provided with all the skills required to take advantage of competitive financial services. Besides, the guidelines state that MIDIS will promote the elaboration of impact assessment studies in order to collect information about the potential response of the targeted public. Finally, it was pointed out that the activities performed during the process will cover several financial topics but in a sequential order; starting with payments, and continuing with savings, insurance and credit. This specific order responds to the interest of the Peruvian government to encourage good practices in the use of the financial system and avoid over-indebtedness problems.

Regarding the actions that government has already been taken, it is worth mentioning the sign of alliances and partnerships, the promotion of the use of electronic money, and the implementation of financial education programs for the targeted population. To begin with, MIDIS established partnerships with public entities, financial institutions, private companies, and international agencies to encourage innovation and development in line with the policy targets. Also, Peru joined important alliances, such as The Alliance for Financial Inclusion (AFI)5 and the alliance Better than Cash6, which connect governments, private sector and development organizations committed to accelerating the shift from cash to electronic payments. On the other hand, the SBS started a training program of financial literacy targeted at school teachers. In fact, in a joint effort with the Ministry of Education, topics of financial education were included on high school curriculum. Moreover, in 2012, MIDIS and SBS launched a campaign to promote the use of basic financial services among the less favoured.

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4 The Guidelines for Financial Inclusion were approved by MIDIS through Ministerial Resolution N° 030-2013-MIDIS on February 05, 2013.

5 The Alliance for Financial Inclusion is a global network of financial policy makers from developing countries and emerging countries working together to increase access to appropriate financial services for the poor.

6 The Better and Cash Alliance was launched in September 2012 by the Bill and Melinda Gates Foundation, MasterCard, Omydar Network, USAID and Visa Inc. The UN Capital Development Fund serves as the Secretariat.
sectors of the population, approving a simplified procedure to open basic accounts\textsuperscript{7} expressed in local currency. Last but not least, a survey about financial literacy was launched to collect data and measure the impact of these policies by monitoring their progress.

During the last decade, private financial providers in Peru have developed extensive networks of correspondent banking, which have significantly expanded the branches of both banks and MFIs. Among the most successful examples of financial institutions that champion the implementation of correspondent banking, the cases of Banco de Credito and Caja Sullana must be highlighted. The size of their branch networks have multiplied and now can reach many poor and low density areas that were formerly excluded. A decade ago, the biggest banks' portfolios were comprised mainly by clients from middle and upper class and banks used a single system for the assessment of all the credit applications. Therefore, they usually did not want to assume the costs of evaluating small loans for new public. As a consequence, those sectors were only served by microfinance institutions. However, strong macroeconomic foundations in conjunction with a good prudential regulation started to attract the interest of these companies and boosted the expansion of new type of credits oriented to sectors that were previously ignored. Throughout the last five years, traditional banks have realized that the high percentage of the population, which remains unbanked due to the lack of options, is a new niche that is worth to be explored. This has brought an interesting competition for lower-income segments, which benefits the unbanked. Nevertheless, despite the recent efforts of incorporating new sectors of the population in the system, the costs of the services provided remain high. For instance, the interest rate of loans to small entrepreneurs is one of the highest in the market, which represents an entrance barrier for SME and informal workers.

As it has been analyzed, the Peruvian Government has demonstrated its commitment to financial inclusion cause in the national and foreign platforms. For instance, In 2011 Peru joined the Maya Declaration, committing to adopt financial inclusion goals as part of its national development policy. Also, the creation of Peru's Multi-Sectoral Commission for Financial Inclusion demonstrates the commitment of the central government to help citizens gain a greater knowledge of supervised systems, develop the skills needed to review and compare financial products and services, improve financial information transparency, and open new communication channels with the people. The main

\textsuperscript{7} A Basic Account is expressed in local currency, its balance cannot be more than 420 pounds at all times, the daily deposits cannot exceed 210 pounds, and the cumulative monthly deposits and withdrawals cannot exceed 830 pounds.
goal in the Peruvian strategy is to enhance financial decision making among vulnerable populations. To accomplish this objective, financial education is a fundamental precondition. Furthermore, following the trend of countries from the region, the implementation of digital payments needs to be incorporated on the policymaker agenda. Over the last couple of years, changes in the financial regulatory framework have been oriented to foster greater access to financial services.

IV. Conclusions and Policy Recommendations

Financial inclusion is a goal that every country must pursue due to its several benefits toward financial well-being of the population. As it has been mentioned, it is an important precondition to achieve the goals of social inclusion. The access to financial services can be translated into short and medium term productive opportunities, but also in long-term improvements, such as the end of intergenerational poverty. People have the right to be included in the benefits brought by the economic growth. However, they must be well-informed to avoid risks of over-indebtedness and risky financial behavior. Therefore, the strengthening of individual’s financial capabilities through campaigns of financial literacy is crucial.

This study has explored the use of conditional cash transfers as instruments to enhance financial inclusion. Evidence based research shows that having access to financial services gives individuals a higher sense of confidence, which means less stress. It appears to be that a certain monthly income helps recipients to plan for the present and for eventual scenarios in the future. In this light, CCTs delivered through electronic payments, could reach more poor and marginalized people. Thus, electronic delivery deserves the attention of policymakers and the use of advanced technological tools must be extensively promoted. This mechanism of delivery helps to safe storage, facilitates transactions, and could take advantage of the already broaden branchless banking to expand the accessibility. However, it is clear that the usage will be guaranteed if the quality of services is good. Another point reviewed in the analysis was related to the cost, electronic G2P payments could not be expensive for government in order to be sustainable. Developing countries cannot always afford the modernization of the payment system infrastructure, as it has other priorities in their agenda that
demand a great portion of their budget. Therefore, the migration to modern technologies must be progressive and implemented according to each country context.

Concerning the supply side, policymakers need to encourage the participation of the private sector through public-private partnerships or through the provision of regulatory incentives. It must be taken into account that financial providers must have enough incentives to find basic bank accounts a profitable business. Furthermore, bank staff needs to treat clients with dignity, and provide more customized products that suit the needs and demands of the poor.

It is, therefore, my contention that policymakers need to be innovative, creative and critically regarding the programs and strategies they implement. Authorities must overcome the fear of fail. Instead, they must realize that policy learning is the most important part of the process. Sometimes it is worthy to replicate successful models adapting it to the country’s context, but generally every project needs to be subject of continuous revision, monitoring and if necessary, it must be redesigned. A useful starting point is the implementation of several pilots to find out the most effective interventions. In the case of Peru, after a comprehensive internalization of the results of Juntos financial inclusion pilot, MIDIS is conducting different projects to test innovations that aim to reduce transaction costs, and to find alternative channels to reduce access barriers to the use of financial services by currently unbanked individuals.
**Abbreviations**

Alliance for Financial Inclusion (AFI)
Center for Financial Inclusion (CFI)
Central Reserve Bank of Peru (BCR)
Conditional Cash Transfers (CCTs)
Consultative Group to Assist the Poor (CGAP)
Financial Inclusion (FI)
Financial Inclusion Support Framework (FISF)
G20 Global Partnership for Financial Inclusion (GP)
Global Financial Development Report (GFDR)
Global Financial Inclusion Database (Findex)
Gross Domestic Product (GDP)
Inter-American Development Bank (IDB)
International Monetary Fund (IMF)
Microfinance Institution (MFI)
Small and Medium Enterprises (SME)
Superintendence of Banking, Insurance and Private Pension Funds Administrators (SBS)
The World Bank (WB)
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