Understanding Income, Remittances and Financial Access in Latin America and the Caribbean: the Case of El Salvador

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This article analyses financial access in El Salvador, delving into its characteristics and determinants. The article also presents the impact of a financial inclusion strategy to increase savings formalization rates among the population.

The analysis is based on a financial advising project for more than 17,000 Salvadorans at branches of the Salvadoran Credit Union Federation (FEDECACES) located throughout the country. Participants received personalized, 20-minute sessions on personal and household finances, financial products, and options to formalize their savings. During the financial advising session, information is shared and exchanged. On an individual level, this information helps the financial educator orient the information being shared to the needs and interests of the client. On an aggregate level, this presents a fascinating picture of financial access in El Salvador.

The results of the project show that most Salvadorans live on less than US$4,000 a year. Though two thirds of Salvadorans save in some form, they generally lack access to financial institutions, and the result is that the majority of people save informally. Only a very small portion of the population has a savings account or another type of financial product. More importantly***, women, homemakers and students, are among those with particularly low financial access.***

However, when people receive dedicated, one-on-one financial advising, 15% formalize or increase their savings on the spot. Moreover, when prompted to feel a sense of gratitude, the number of people formalizing their savings doubles. Those receiving remittances in particular respond more to the motivation to formalize their savings.

About the locations

The population served by the project was located in 155 out of a total of 262 municipalities in El Salvador. The credit unions where the project took place are located in places where migration and violence is prevalent, but levels of human development are quite low. The participating towns, those with FEDECACES locations, included 78% of the total population of the country and 79% of all students enrolled in schools. On a darker note, those municipalities also experienced 81% of homicides nationwide. The human development index for participating towns was below average for the country.

Table 1: Population, school enrollment, homicides, development and migration of FEDECACES localities

	Population	School Enrollment	Homicides	HDI	Migration
FEDECACES Locations	78%	79%	81%	0.55	88%
Other Locations	22%	21%	19%	0.61	12%
	100%	100%	100%	0.58	100%

An Economic and Social Profile of Salvadorans

El Salvador is a low-income economy that has experienced a large outflow of labor migration and a substantial inflow of family remittances from more than one million migrants, mostly living in the United States. The causes of such migration are mixed, and have to do with issues related to economic performance, inequality, insecurity and consolidated migrant transnational networks. The inflow of remittances has contributed to increase their savings. Overall, however, the population continues to experience low earnings.

The tables below provide additional detail on the socio-demographic profile of participants, including gender, age, income, and remittance dependence.

The majority of individuals who visit the credit union are what can be called *transactional clients*, people who go to the credit union to collect a government-issued gas subsidy, to receive a remittance transfer, to pay bills, or to deposit money. In fact, only 29% of people are actual members of the credit union; the rest are visiting the location for transactional activities.

These clients are in their majority women, many of them homemakers, followed by people working in the formal economy, and students. They are in their early forties, with nearly two thirds having a relative living abroad, and half of all clients receiving remittances.

Their income is about US$4300 a year on average, but it is lower among women ($3800) than men ($5222).

Table 2: Socio-demographic characteristics

	(%)	Average
Woman	71	
Age		40
Personal annual income		4,303
Household size		4
Receives gas subsidy	73	
Credit union member	29	
Inactive member	4	

Table 3: Occupation

	%
Home maker	40
Works in formal economy (teacher, government, etc.)	20
Student	11
Trader, entrepreneur	7
Agriculture	7
Other	15

Over sixty percent of participants have relatives abroad, and nearly fifty percent receive remittances. Women tend to be more remittance dependent, first because 49% of them receive remittances compared to 34% of men. And second, their total income includes more remittances than men's income. On average, participants receive $205 twelve times a year, as the table below shows.

Table 4: Migration and remittances

	%	Average
Relatives abroad	63	
Receives remittances	47	
Amount received		205
Frequency received		12
Years receiving		5
Relatives who have returned	6	

Table 5: Gender and Remittances

	Women		Men	
	No remittances	Receives Remit.	No remittances	Receives Remit.
Annual household income (USD)	5,139	4,353	6,885	5,339
Remittances		2,560	.	2,286
Total income	5,139	6,913	6,885	7,625
Remittance dependence		37%		30%

The profile of this population speaks to a low-income society. In El Salvador, income is determined by structural as well as emerging factors such as those associated with migration, like remittances. The fact that 47% of clients that visit Fedecaces branches receive remittances is not accidental given the large migration outflows that have shaped this country's recent history.

Income among Salvadorans is greatly influenced by age, gender, household size, and financial capability. For example, older people are less likely to have higher earnings. Moreover, gender and financial access are key issues under consideration. Women, and homemakers in particular, are more likely to have lower earnings than men (See Appendix, Table A1).

Those who are able to save, own financial products and receive remittances will have higher incomes than those who don't share those three features. However, owning financial products is a challenge.

The Challenge of Financial Access

Although income is determined by certain financial endowments, such as savings, financial product ownership or transactions such as family remittances, most Salvadorans have poor financial access.

For example, as mentioned above, only 29% of all people that visit a credit union are actually members. The remaining 70% are what we have called transactional clients.

Second, among transactional clients, the extent of financial access, including ownership of financial products like savings, is very low. They may be able to visit the credit union and enjoy geographic access, but they do not exhibit ownership of financial instruments. For example, only 18% of clients had access to a savings account, the most common type of financial product.

Aside from having a savings account, a much smaller number of people have other financial services, including credit, credit or debit cards or various types of insurance products.

The table below identifies the extent of financial product ownership among credit union members and transactional clients. As the table shows, practically 2 in ten people have savings accounts, and then 1 in ten some kind of credit or insurance.

Table 6: Type of financial products owned

	Member	Transactional client
Savings account	87.3%	18.3%
Life insurance	14.7%	12.8%
Credit or loan	14.9%	9.7%
Checking account	36.1%	9.1%
Medical insurance	11.0%	8.4%
Debit card	12.3%	6.3%
Credit card	4.7%	2.7%
Retirement insurance	2.5%	2.1%
Certificate of deposit	9.3%	1.2%
Loan from a person	0.7%	0.8%
Loan from a lender	0.9%	0.7%

Savings may be related to income and remittances, but are not guarantee of financial access because most money may be informally stored outside the financial system. For example, the percentage of remittance recipients who formally save (47%) is larger than that of non-recipients who formally save (36%). However, the number of people who save in any form is as high among remittance recipients (72%) as non-recipients (75%).

Part of what makes the difference are certain key factors that contribute to greater financial capability or strength. Research has shown that above-average income, having savings in a certain amount, and knowing about personal finances contributes to financial strength. But being a woman and a homemaker makes it harder to have access to financial products.

The data from El Salvador project, in fact, showed that to be the case. Homemakers reported 25% lower rates of financial access than other groups, and even having savings in any form may decrease product ownership, (See Appendix, Table A2). Increases in income and knowing about personal finances (such as knowing to budget), on the other hand, increases the chances of owning a financial product.

These results are important because in El Salvador, as in many other countries, there is a critical mass of people without financial access, particularly without a savings account.

First, only 28% of people who save have a bank account, and 24% of people who have a budget actually have a savings account.

Second, as the table below also shows, there are serious structural problems related to gender: only 17% of women, who represent 70% of all clients visiting the credit union, owned a savings account.

The percentage was even lower among homemakers, which basically was one in 10.

Table 7: People with savings accounts

Cohort	Percent of participants	Percent of those who own a savings account
People who save in some way	63%	28%
Women	70%	17%
Homemakers	37%	13%
Students	11%	7%
People who keep a budget	37%	24%

Financial Advising As a Financial Inclusion Strategy

Given these facts presented above, increasing financial inclusion should be a matter of social and development policy.

To that effect, FEDECACES established a financial inclusion strategy consisting of providing financial advising to all clients visiting the credit unions.

The results of financial education showed that 26% of credit union members increased their deposits. Financial education also helped bring 8% of transactional clients into the credit union as members and open a savings account.

In total, the volume of savings amounted to US$2 million. .

In addition to financial advising, clients were prompted to evoke a sentiment of gratitude at the beginning of the financial advising. In turn, 14% of transactional clients opened a savings account at the credit union. Thus, gratitude increased conversion from 8% to 14% among transactional clients.

About the financial education strategy and its results

The financial education approach consisted of sharing basic knowledge about personal finances with clients. But it also included providing information about financial products offered by the credit union and helping people realize the value-added of formalizing their savings.

The results of this advising approach showed that those who positively demonstrated a commitment to save or use formal financial instruments were more likely to 'convert', that is, their commitment increased the chances by 55% to put their money at the credit union at the time of the intervention (Table A3).

In addition, members and clients were asked whether they could evoke a sentiment of gratitude. The results also show that evoking gratitude increased conversion by 58% (Table A3). Those who saved, no matter how much they had, were highly likely to convert. Homemakers showed a positive sign, though not statistically significant, meaning that financial education needs to be differentiated. Students, however, responded to the experiment on gratitude.

Financial advising strategy—The Inter-American Dialogue has developed a strategy that provides financial education to remittance recipients and other transactional clients through partnerships with a range of grassroots and financial service institutions operating worldwide. In partnerships with local financial institutions, the Dialogue then provides a client with four services: financial education, presentation of available financial products, a referral or method to connect with a financial institution, and follow-up on financial behavior change.

The Dialogue's methodology begins by identifying partner institutions and training financial educators on its unique approach. It then rolls out the financial education program at field sites throughout the country.

The central method is one-on-one sessions adapted to the reality of the partner institution's mission and location. Financial educators approach clients as they wait in line for their transactional activity, such as remittance payment. They then offer them a free, personalized financial advising session that lasts approximately 30 minutes. The session relies on a pedagogical approach that defines, explains, illustrates and evaluates basic issues of personal finance while connecting them to the person's day to day income and expenditure realities (We call this " SEXI:" Statement, Explanation, eXample, Implication). A typical session would have the following structure:

1. Financial education (20 minutes): basic explanation of budgeting, savings, credit and insurance using real-life examples;
2. Promotion of financial products (5 minutes): brief introduction to financial products based on the interests and needs of the client;
3. Point of contact (3 minutes): introduction to a staff person who can open an account.

The end result is that 20%-25% of clients formalize their savings by depositing their money at the financial institution after receiving their advice.

Table 8: Percent of people who responded to financial advice

	Credit union member	Transactional client	Transactional client with gratitude evoked
Men	26.8%	8.0%	14%
Women	27.1%	11.1%	13%
Homemaker	28.2%	6.6%	15%
Student	31.3%	7.7%	19%
People with budget	29.0%	8.0%	9%
People who Save in some way	27.2%	9.2%	16%
People who receive remittances	26.1%	9.0%	13%

Gratitude, the recognition that one person is the beneficiary of another's act of kindness, has turned into an important tool to modify certain forms of economic behavior. Recent research had found that evoking gratitude have an impact in the inter temporal choice of individuals: people are able to make better decisions by being more patient, not overvaluing the present, and attaching higher a utility in future income. According to Steno, "the emotion of gratitude reduces impatience even with real money at stake."[1] In practical terms, gratitude can induce savings behavior.

Following this research, financial educators were trained to randomly ask clients to tell them a personal experience that brought the feeling of gratitude to them. "[Me podría contar/usted tiene/alguna vez ha pasado por] alguna experiencia personal en la que usted tiene un sentimiento de agradecimiento en su vida?" As the results in table 7 show, this evocation of gratitude helped increase savings

Moving Forward

This analysis shows key issues that merit substantive attention. First, Salvadorans exhibit low levels of financial access. In practical terms, although the large majority of Salvadorans save, they do not own a financial product, including a savings account. Second, this situation is more acute among women, and in particular among homemakers. At a large scale, lack of financial access among homemakers is a major policy problem, especially in a country where they amount at least to one quarter of the population and where they already find themselves in financially vulnerable situation.

Third, interventions on financial inclusion are urgently needed, and can positively impact the condition of women and local economies by increasing savings in the financial system. These savings can be then mobilized for credit in key strategic sectors.

Fourth, both the financial advising approach and the gratitude technique are innovative experiences that, now tested, can serve for greater replication and scaling up. To that effect, it is important to set benchmarks and milestones of impact while being mindful of the existing limitations.

A1. Income determinants

Variables in the Equation	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	7.531	.051		147.627	.000
Age	-.003	.001	-.059	-3.217	.001
Sex (Male: 1)	.124	.030	.076	4.112	.000
Household size	.063	.007	.156	8.464	.000
Whether person saves in any way (Save: 1)	.313	.027	.232	11.537	.000
Whether person owns a financial product (Owns: 1)	.132	.028	.094	4.704	.000
Amount received in Remittances	.000	.000	.371	20.200	.000

A2. Determinants of financial access

Variables in the Equation	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.767	.296		-5.975	.000
Age	.002	.002	.011	.973	.331
Sex (Male: 1)	.255	.062	.051	4.130	.000
Financial profile (owns an account and has a budget)	1.710	.036	.722	47.038	.000
Income	.293	.035	.095	8.326	.000
Homemaker	-.623	.057	-.140	-10.852	.000
Saves in any way	-1.965	.069	-.439	-28.618	.000

A3. Determinants of savings formalization

Variables in the Equation	B	S.E.	Wald	df	Sig.	Exp(B)
Evoked gratitude sentiment	.583	.190	9.462	1	.002	1.792
Age	.014	.006	4.948	1	.026	1.014
Amount received in remittances	.000	.000	10.894	1	.001	1.000
Years receiving	-.069	.025	7.708	1	.005	.933
Responded positively to financial advice*	.558	.099	32.018	1	.000	1.747
Homemaker	.107	.188	.327	1	.567	1.113
Saves in some way	.820	.241	11.605	1	.001	2.270
Constant	-4.380	.471	86.426	1	.000	.013

*This variable adds a count of financial decisions the client says he/she will make: wants to apply of the savings methods; wants to open a savings account; wants to buy an insurance; wants to draft a budget; wants to open a checking account; wants to apply for a loan.