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Timeline
2018-2021

Sample Size
1,595 households

Research Implemented by IPA
No

The Role of Savings Accounts and Remittances in Mitigating the COVID-19 Crisis in Nicaragua

Abstract

There is a limited understanding of how access to formal financial services may have helped vulnerable populations cope with the economic effects of the COVID-19 pandemic. Did formal savings help families cope with interruptions in employment? And, did digital remittances help mitigate the financial shocks of the pandemic? In Nicaragua, researchers leveraged an existing randomized evaluation—aimed at improving the productivity of the self-employed rural population—combined with bank administrative data to answer those questions.

Policy Issue

The COVID-19 pandemic has resulted in massive loss of life and an unprecedented economic crisis with far-reaching social impacts. There is however little evidence on the mechanisms that could help populations cope with the economic impacts of the pandemic. Two potential methods of weathering economic shocks are formal savings and remittances. Some evidence suggests that households with robust savings can weather shocks like unemployment. In the absence of savings, households may rely on other sources of income, for example, remittances—transfers sent home by migrants to support their families.

However, in the context of the COVID-19 pandemic, it is unclear whether remittances will provide an adequate social safety net. The global economic crisis could have affected the income of remittance issuers, thereby reducing remittances. Lockdowns and mobility restrictions could also affect migration and supply chains, making it difficult to send remittances. At the same time, the pandemic has led to widespread adoption of digital financial services[1]. This increased use of mobile money could have increased remittances.

Context of the Evaluation

The COVID 19 pandemic and the political crisis Nicaragua is currently experiencing threatens to reverse the progress achieved between 2005 and 2014 when the country experienced a constant growth of 4 percent and reduced poverty by half. Moreover, despite progress, Nicaragua remains one of the poorest countries in the region, surpassed only by Haiti, and access to basic services remains a key challenge.

Even before the pandemic, poverty in Nicaragua started to increase (from 9.5 percent in 2017 to 13.1 percent in 2019), a situation expected to worsen with the loss of jobs associated with the pandemic and renewed political instability. Experts estimate that more than 80,000 new people will live in poverty compared to 2019.[1]

Savings or any other mechanism to deal with financial shocks in the Nicaraguan population are rare, in fact, only one in three adults had access to a bank account.[2] In the absence of financial security, many people had to lower even more their expenses. According to a phone survey by the World Bank, food insecurity worsened as 26 percent of households reported running out of food during the pandemic.[3] For many households, remittances, which represent 10 percent of the Gross Domestic Product (GDP), are the only income they have left to cope with this economic recession.

Details of the Intervention

In Nicaragua, researchers leveraged an existing randomized evaluation—aimed at improving the productivity of the self-employed rural population—to measure whether access to savings accounts helped mitigate the negative effects of the pandemic. The intervention was conducted in partnership with the private bank Banpro between January and May 2019. 2,802 rural households were randomly assigned to one of the following groups[1]:

- **Savings account:** Rural households were offered a savings account through door-to-door visits by Banpro's marketing representatives. The aim of these accounts was to provide a tool for accumulating financial capital that will be later allocated to productive investments.
- **Savings account + saving grant:** Rural households were offered a savings account plus a cash grant. The value of the grant was USD $200 (valued at about NIO $6,000 at

the time of the intervention) distributed over a 20-week period.

- **Productive investment grant:** Rural households in this group received a cash transfer worth USD $200. Households were invited to use this transfer as a productive investment that would enable them to diversify their productive activities.
- **Aspiration training:** Rural households in this group received personal initiative training. The training was designed based on psychological theories that identify the aspirational deficit as an obstacle for self-employed people to improve their productive activities.
- **Aspiration training: + savings account + saving grant:** Rural households in this group received the aspiration training, a savings account, and the saving grant.
- **Comparison group:** Rural households in this group received no intervention.

In addition, the research team analyzed how the COVID 19 pandemic has affected remittances. To do this, they used administrative data from an online banking program—Mobile Wallet—launched by Banpro. The data contains banking transaction information (including remittances) of 720,000 participants from 2019-2020, representative at the country level.

Results and Policy Lessons

Research ongoing; results forthcoming.

Sources

[1] Aramé Awanis and Emily Gamble, "Assessing Mobile Money Consumer Trends in the Wake of the COVID-19 Pandemic," Mobile for Development (blog), March 12, 2021, https://www.gsma.com/mobilefordevelopment/blog/assessing-mobile-money-consumer-trends-in-the-wake-of-the-covid-19-pandemic/.

[2] World Bank. "Poverty and Equity Brief: Nicaragua." (2020).https://databank.worldbank.org/data/download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/AM2021/Global_POVEQ_NIC.pdf

[3] World Bank. "Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+): Nicaragua." *Data Bank* (2017).

[4] World Bank. "Poverty and Equity Brief: Nicaragua." (2020).https://databank.worldbank.org/data/download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/AM2021/Global_POVEQ_NIC.pdf

[5] The researchers were able to track only 1,595 households of the 2,802 who originally participated in the study.

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