



Child Development Accounts: A Policy Design and Opportunity for Azerbaijan

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Child Development Accounts (CDAs) are savings or investment accounts with structured and incentivized mechanisms for children to accumulate assets.¹ Research demonstrates that asset accumulation has several positive effects for children. In addition to preventing child labor,² it has been shown to improve school enrollment, educational attainment,³ self-esteem, socioemotional development,⁴ health, and educational performance.⁵ Savings for postsecondary education are positively associated with children's educational attainment and other development outcomes.⁶ CDAs also have positive impacts on parents' educational expectations for their children and on maternal mental health.⁷

CDAs help families pay for postsecondary education and motivate young people to prepare for college. Thus, CDA assets foster the development of human capital.⁸ CDAs also offer young people opportunities for learning about financial management. Evidence from behavioral economics suggests that, between the ages of 6 and 12, children begin to grasp the relationship between savings and future opportunity. Overall, the process of saving and building assets may teach money management, foster future orientation, and encourage long-term planning.⁹

CDAs in the World

Since late 1990s, national CDA policies have been implemented in Singapore, the United Kingdom, South Korea, Taiwan, Canada, and Israel. Seven U.S. states have adopted CDA policies.¹⁰ In Israel and the U.S. states of Maine, Pennsylvania, Illinois, California, and

Nebraska, CDAs are fully universal policies (meaning all newborns are included) with automatic enrollment.

Azerbaijan

Like other post-Soviet countries, Azerbaijan has experienced recent economic growth, but poverty is prevalent among the three million children in the nation. There are over 72,000 children with disabilities in Azerbaijan,¹¹ 9% of the nation's children engage in child labor,¹² and up to 10,000 children live in large institutions, which make it difficult for children to develop to their fullest potential and to become integrated into society after they leave care.¹³ Many institutionalized in childhood remain impoverished after leaving care at age 18.¹⁴

More than 500,000 children and youth need more social-, economic-, and psychological-support services from the government. Due to the low socioeconomic status of families, children—especially girls—are forced to early marriages. The current social welfare system in Azerbaijan is not effective in lifting children or adults out of poverty.¹⁵ Hence, most impoverished children remain poor into their adulthood.¹⁶ This persistence of poverty creates a drag on the economy and adds to social difficulties. As an oil-rich country, Azerbaijan should consider using oil revenues to expand human capital development, ensure balanced and sustainable development, reduce inequality and poverty, and make the nation globally competitive beyond the oil sector.¹⁷ CDAs are an efficient, effective component of a wider strategy to achieve this important goal—a strategy including good and inclusive health and education systems. The nation as a whole would benefit.



A CDA Policy Design for Azerbaijan

A CDA policy with the following principles would offer the children of Azerbaijan a more promising future.

Universal Eligibility

For Azerbaijan, we recommend a universal CDA policy: Every child who is a citizen of Azerbaijan should have an account. As indicated, CDA policies are universal in Israel, Singapore, and several U.S. states. In these places, every child who is a citizen is included, regardless of their socioeconomic background.

Automatic Enrollment, Starting at Birth

When parents are required to take steps to enroll their child in a CDA policy, many do not sign up. A policy that automatically enrolls each newborn ensures that all children have accounts.¹⁸ For Azerbaijan, we recommend a CDA policy similar to those in Israel and the U.S. states of Maine, Pennsylvania, and Nebraska, a policy that automatically enrolls each child at birth. Some governments achieve this by directing vital records administrators to share information on new births with the administrators of the CDA policy.

Assets in CDAs Are Reserved for Postsecondary Education

CDA policies restrict how the assets may be used. In Canada and the U.S. states, the policies allow beneficiaries to access the funds for postsecondary education and specified expenses related to development of human capital—for example, tuition, school supplies, and living expenses during matriculation. The policies allow CDA assets to be used inside or outside of the policy jurisdiction. For example, assets in a CDA issued by the State of California may be used at accredited educational institutions in other U.S. states and in other countries. When the student is ready to use the money, the asset is directly transferred to the university, college, or vocational school. We recommend such a restrictive CDA policy in order to insure that the money will be spent on investment in postsecondary education in Azerbaijan to improve human capital. This principle is consistent with the president of Azerbaijan's vision for human development.

Automatic Initial Deposit

CDA policies automatically provide an initial seed deposit for a child at the point of enrollment. This initial deposit is essential because it enables disadvantaged families to accumulate assets for their children even if the family's finances make saving difficult. It leads to full inclusion—in other words, it covers every child. Having assets from the start may reinforce saving behavior and attitudes, motivating families to increase their savings. Also, assets in CDAs may encourage families to think about and plan for the postsecondary education of their children.

For the initial deposit, Azerbaijan can use a portion of the existing baby bonus, a one-time, AZN 200 (USD 120) allowance paid to parents at the birth of every child who is a citizen of Azerbaijan Republic (Uşağın anadan olmasına görə birdəfəlik müavinət).¹⁹ We recommend that the government deposit half of this allowance, AZN 100 (USD 60), as seed money in an automatically opened CDA when each child is born.

Incentives in the Form of Matching of Savings

A CDA policy can encourage families to save, especially low-income families, by offering incentives and support.²⁰ We recommend that Azerbaijan use a basic 1-to-1 matching design. That is, the government would contribute AZN 1 for every AZN 1 deposited into the child's account by family or others. Higher matches—perhaps up to 3 to 1—would be offered to the poorest families. The government's portion would be subject to a monthly, yearly, and/or lifetime cap. In Canada, for example, the lifetime cap is CAD 7,200—the government will pay up to that amount in matches for each CDA account.²¹

Encouraging CDA Deposits From Other Sources

Once a CDA is set up for every child, family members, friends, school or community projects, philanthropic organizations, corporations, and international aid groups can be encouraged to make deposits. We recommend that a national CDA policy make provisions for extending such encouragement. The goal of building assets for children's education appeals to many donors and can generate positive energy around the national goal of developing human capital.

Ongoing Deposits by Government

The initial seed and any individual savings in CDAs would grow with ongoing infusions from the government. We recommend that government subsidies for CDA deposits in Azerbaijan come from natural resource revenues. Azerbaijan can refer to the experiences of the U.S. state of Alaska and the Canadian province of Alberta, where oil revenues fund lump-sum, annual dividend distributions to citizens. Alaska's largest annual dividend was paid in 2015: Each resident received USD 2,072.²² Alberta offered a direct, one-time, CAD 400 "prosperity bonus" to each resident for 2005.²³ Alberta also gave citizens a rebate through subsidies that reduced the price of natural gas. Similarly, Azerbaijan could deposit a rebate into each child's CDA. In Israel, the government makes a regular, monthly deposit of USD 13.50 into each CDA.²⁴ Funding for the deposits comes from a refund of a previous cut in Israel's monthly Child Allowance; instead of being available for immediate consumption, the funds become an automatic CDA deposit.²⁵ Given ongoing flows of oil revenues in Azerbaijan, it may be possible for the government to support deposits as children grow. Deposits could be made annually, quarterly, or monthly, depending on the design that Azerbaijan prefers and its cost efficiency. Or, deposits could be structured as behavioral incentives—for example, as rewards for each completed year of schooling or for primary- and secondary-school graduation.

Progressive Subsidy

Whatever form it takes, progressive subsidy is a key policy concept for CDAs.²⁶ Many low-income families struggle to save for long-term goals because their income is spent to meet basic needs. Thus, a national CDA policy that facilitated saving by rich families without enabling poor families to accumulate assets would only increase the wealth gap and inequality in Azerbaijan. Experiences in Singapore and elsewhere indicate how progressive subsidy can be done:²⁷ for disadvantaged families, the Azerbaijan government could provide additional seed money beyond that given to higher income families, extra monthly matching funds, and/or a lifetime matching cap that is twice the cap for higher income families. For example, Canada has a basic grant used to match savings, and it is applicable to everyone. Two additional kinds of grants match savings by low-income families.²⁸ In the United Kingdom, the government issued a GBP

240 voucher for each child, and each child in a low-income family received an additional voucher for the same amount.²⁹ We recommend that the chosen strategy for progressive subsidy fit the design of the intended policy and the conditions where the policy will be implemented.

A Centralized Savings Platform

A centralized savings platform, whereby accounts are opened and run by a single entity, is another important element for launching CDAs. Azerbaijan already uses centralized financial platforms for the social pension and disability benefits. In addition to consolidated accounting (combining all financial operations together), inclusion of the full population of children, and coherent and accurate accounting, centralization enables efficiency and accuracy in record keeping, oversight of investing, reporting, and communications.³⁰ What are the options for a centralized platform? We recommend that a CDA policy for Azerbaijan be administered in the State Social Protection Fund, as accounts at the Central Bank, or by the State Oil Fund.

Financial Education With CDAs

Targeted financial education is another important element of the institutional determinants that support families in their efforts to save.³¹ *Financial capability* refers to the knowledge, skills, attitude, self-efficacy, and access to financial products, services, and opportunities an individual requires to build savings and other assets and to manage financial resources effectively.³² We recommend that the government foster financial capability in Azerbaijan by adapting the Center for Social Development's curriculum for Azerbaijan's context. Designed to train social workers and other helping professionals on including financial capability practice in their work with clients, the curriculum offers a means of delivering guidance to large numbers of families, particularly disadvantaged families with low levels of financial literacy.³³ In Azerbaijan we recommend that professionals working with families and children be trained to deliver financial capability guidance to all who will have accounts for their children. With trained professionals engaged in this work, a number of strategies become possible:

- » **Conventional training.** Training courses for families can be offered at local Social Protection Centers of the Ministry of Labor and Social

Protection. Such centers are located in all administrative districts of Azerbaijan.

- » **Promotional materials.** Information on financial matters can be disseminated in booklets and brochures through the Social Protection Centers, in secondary schools, and in community-based child polyclinics.
- » **Secondary school curriculum.** Financial capability can be taught in school through the Livelihood Skills class (Həyat Bilgisi), which already is offered in the curriculum.³⁴
- » **Messages to mobile phones and other instant messaging systems.** In Azerbaijan, mobile companies regularly send commercial, promotional, and marketing text messages. We suggest that this approach be used to promote financial capability. This might include a short message about the importance of asset accumulation, tips on saving, and related information. Such messages could be sent to citizens as a part of the financial educational component of a national CDA policy. For example, MPromo, a company in Azerbaijan, sends bulk messages to citizens.³⁵ We recommend using that service or a similar one to send bulk messages on financial education to children and their families.
- » **Online training courses.** Offering financial capability training online would ensure that it is broadly accessible, especially to rural households and parents who are unable to leave the home.

Administration

Government entities administer the CDAs in Singapore, Canada, Israel, South Korea, Taiwan, and elsewhere.³⁶ We recommend that a CDA policy in Azerbaijan be administered by one of these three public entities: the State Social Protection Fund, the Central Bank, or the State Oil Fund.

Delivery of Accounts

There are three possible ways to deliver accounts. The first is the method used by the State Social Protection Fund for all pension and social allowance accounts. A second is to open an account for each child through the State Oil Fund. Those accounts would earn interest or a dividend, and Azerbaijan could draw upon the experience of Alberta's oil fund, the Alberta Heritage Trust Fund,³⁷ which treats

financial assets as a dividend earning. A third option is to deliver CDAs as accounts in the Central Bank.

Management of Accounts

We recommend that balances in accounts not be directly accessible to beneficiaries. To avoid errors and “leakage” for undesired expenses, the government agency can transfer CDA funds to the beneficiary's educational institution. The system for transferring funds should draw upon the experiences of similar efforts in Canada and the United States.

Online Banking for Information and Access

We recommend that online banking capabilities be incorporated into a national CDA policy. This would enable families to see account balances and make deposits. Mobile applications created for these purposes could overcome the lack of banking infrastructure in some areas, especially remote rural ones. Internet access is widely available in Azerbaijan, which ranked 34th among 137 countries for the number of Internet users.³⁸ A CDA policy for Azerbaijan can and should take advantage of information technology's penetration.

Facilitation of CDA Deposits

Facilitation refers to conditions that enable citizens to save automatically in pre-agreed amounts from salaries or other sources.³⁹ Automatic deposits from employee wages are a promising means of accumulating savings, but facilitation in this area cannot enable everyone to save because not everyone receives a paycheck. The movement to revive Azerbaijan's universal child allowance offers another opportunity for facilitation. As noted above, a small portion of Israel's child allowance is automatically diverted into CDAs.⁴⁰ Azerbaijan's CDA policy would also encourage deposits from other sources—family, friends, philanthropies, businesses—but those are not likely to be regular, automatic flows into the accounts.

A Research Component of the CDA Policy in Azerbaijan

To inform future policy decisions, a national CDA policy should include a strong research component with systematic data collection. We recommend such a component for Azerbaijan. The Center for

Social Development can advise or partner with Azerbaijan in developing a plan for CDA research.

Economic and Political Risks in Long-Term Asset Accumulation

Long-term asset accumulation involves risk. One source of risk is from developments in the macroeconomy, especially inflation or a sudden devaluation. These risks are present in any CDA policy in any country and must always be given careful consideration. A basic policy principle is that, insofar as possible, CDA assets should be protected from loss of real value over time.

Investment Options

If CDAs are held through private banks or investment managers, allowing CDA families to choose investment options would not be advisable. Underdevelopment of the banking system and financial management infrastructure raises concerns about trust, which is a critical requirement for an effective CDA policy. CDAs opened through the State Social Protection Fund would, due to security and trust elements, be passive savings accounts. They would have no potential for growth from investment earnings. However, CDAs opened through the State Oil Fund or the Central Bank could offer families a simple set of investment options. We recommend that a national CDA policy offer accounts with the potential for growth from investment earnings, giving families a “voice” and experience in the management of CDA assets over time.

Asset Management

The management of assets in CDAs is an important issue. By assigning this responsibility to the State Oil Fund or the Central Bank, Azerbaijan can foster a “protected space” in which to develop institutions for long-term asset management. Residential-care institutions in Azerbaijan save monthly allowances for children in their custody who do not have both parents, making accumulated funds available to the youth when they reach the age of 18 years. Insights from managing those allowances can inform the government’s management of CDAs and build upon that system’s benefits by investing the funds in options with the potential for investment earnings. Building secure and effective asset management could be an explicit goal of CDA policy. Asset management institutions, after “fully grown” for CDAs, could then begin to serve other national purposes.

This vision for a national CDA policy is ambitious. If successful, it could be an important contribution to long-term economic development in Azerbaijan.

Notes

1. Mason, Nam, Clancy, Kim, and Loke (2010).
2. Basu, Das, and Dutta (2010).
3. Zhan (2006); Zhan and M. Sherraden (2003).
4. Huang, M. Sherraden, Kim, and Clancy (2014).
5. Kim, Huang, M. Sherraden, and Clancy (2017)
6. Zhan (2006); Zhan and M. Sherraden (2003).
7. On the effects for education-related expectations of parents, see Kim et al. (2017). On those for maternal mental health, see Huang, M. Sherraden, and Purnell (2014).
8. M. Sherraden, Clancy, Nam, et al. (2018).
9. Johnson and M. S. Sherraden (2007).
10. Clancy, M. Sherraden, and Beverly (2019); Clancy, M. Sherraden, Huang, Beverly, and Kim (2019); and M. Sherraden et al. (2016).
11. UNICEF (2019).
12. Save the Children (n.d.).
13. World Vision (n.d.).
14. UNICEF (2019); Claypool and Ismayilova (2019).
15. United Nations Population Fund (2014).
16. Wagmiller and Adelman (2009).
17. Hopkins, Lawrence, Stephens, and Webster (2008).
18. M. Sherraden, Clancy, and Beverly (2018). Some policies afford parents the choice to opt out of enrollment or to opt out of communications about accounts.
19. Azerbaijan Republic, Ministry of Labor and Social Protection (n.d.).
20. Beverly and M. Sherraden (1999).
21. Frenette (2017).
22. Alaska Department of Revenue, Permanent Fund Dividend Division (n.d.).
23. Gupta, Segura-Ubiergo, and Flores (2014, p. 13).

24. Grinstein-Weiss et al. (2019).

25. While the idea of a monthly CDA deposit is an empowering measure, especially for disadvantaged families, the previous cut in child benefits (in 2013) was a harsh measure, particularly because of the high Israeli (relative) child poverty. Its refund in the following coalition government (in 2015) in the form of a compulsory CDA with a possibility of a voluntary increase of the deposit, out of a further reduction of the current child benefit, was completed in 2016 and 2017. The additional deposit has not been easy to perform for families living in poverty. A more equitable policy would have been not to cut the child benefit in the first place but to increase it in the form of a CDA. As shown in a simulation performed in Pinto and Gottlieb (in press), the actual policy is expected to be less favorable for intergenerational mobility than if it were based on a nondecreasing child benefit. This due in part to a lack of additional investment by poor families, which need the child benefit for the coverage of basic needs. Furthermore, the Israeli model offers parents a choice between a long-run investment fund and a low-risk government default (if a parent does not choose an option). It has been shown that families in poverty tend to rely on the government default option. However, the low-risk default choice is shown to be disadvantageous in the long run, since the expected Sharpe index for the high-risk choice involves a better yield-to-risk ratio.

26. M. Sherraden, Clancy, and Beverly (2018).

27. Loke and M. Sherraden (2019).

28. Imbeau (2015).

29. Zichawo, Farber, and Mensah (2014).

30. M. Sherraden, Clancy, and Beverly (2018).

31. Beverly and M. Sherraden (1999).

32. M. S. Sherraden et al. (2015).

33. Huang, Nam, and M. S. Sherraden (2013).

34. Azerbaijan Republic, Ministry of Education (n.d.).

35. MPromo (2019).

36. M. Sherraden et al. (2016).

37. Alberta Government (2019).

38. Asian Development Bank (2019).

39. Beverly and M. Sherraden (1999).

40. Grinstein-Weiss et al. (2019).

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