CNN World

GLOBAL public square

IN PARTNERSHIP WITH TIME


A man sending money through a pioneering mobile phone service called M-Pesa, in Kenya's capital, Nairobi. (Getty Images)

August 1st, 2011
12:00 PM ET

# Innovations in access to finance

***Editor's Note:*** *Mr. Mahmoud Mohieldin is a World Bank Managing Director, responsible for the Bank's knowledge development. This post is part of the Global Innovation Showcase created by the New America Foundation and the Global Public Square.*

By **Mahmoud Mohieldin** - Special to CNN

Access to finance is critical for a country's development - it is as much a part of a country's basic infrastructure as access to roads, or electricity, or the Internet. Ample evidence indicates that economies with deeper financial sectors and well-functioning financial systems perform better.

Moreover, access to finance is an important contributor to inclusive development. Poor households in particular need access to a broad range of financial services — savings, insurance, money transfers, and credit — in order to smooth consumption, build assets, absorb shocks and manage risks associated with irregular and unpredictable income. Without access to good formal services, the poor must rely on the less reliable and often far more expensive informal sector. A growing body of evidence confirms that gaining access to finance has a positive impact on household welfare.

Globally, an estimated 2.7 billion working-age adults remain excluded from the formal financial sector. Even in rich countries, up to 10 percent of the population is entirely unbanked – in developing countries, in particular in Sub-Saharan Africa, the share of unbanked is in the 80-90 percent range.

With such a large gap remaining, innovation is needed. Recent new business models and product innovations are encouraging. For example, commitment savings in Ghana, which require the saver to deposit a certain amount of money in a bank account and not access it for an agreed period of time, is being proven to be effective at protecting the cash both fromthe impulses of the savers themselves, and from the hands of family and neighbors. Other product innovations include rainfall insurance in India that allows farmers to shift toward more risky, rain-sensitive crops that typically provide higher profit.

And innovation in ICT is quickly making up for many of the infrastructure and delivery inefficiencies that have made it difficult to reach the poor. For example, in Kenya, 40 percent of adults are registered customers of M-Pesa – an electronic payment and store-of-value system that is accessible through mobile phones. The average transaction at M-Pesa stores, where users can cash-in and cash-out, is around 33 dollars, with half of the transactions under 10 dollars. And insurance companies using reporting and monitoring systems based on mobile technology dramatically shorten settlement time for insurance claims, reducing the cost of service and expanding access to smaller farmers.

**Read:** ***More from the Global Innovation Showcase created by the New America Foundation and the Global Public Square.***

Innovative means of communicating are also at the forefront of efforts to improve access to financial services. Studies inPeru, Bolivia, and the Philippines, have shown how innovative product features such as SMS messages reminding people to save can be effective. And with the ineffectiveness of many traditional approaches to financial literacy– such as print materials or courses/workshops –there is great potential to use entertainment education as a means of improving financial literacy, drawing on the success in other sectors such as health.

Governments and regulators have a critical role to play as well. Innovation flourishes when prudent rather than restrictive regulatory frameworks are in place. For example, Brazil's allowance for banks to extend access to financial services through non-bank agents is a good example of a framework that balances the need for innovation and safeguards.

Pulling all the evidence together, we are learning that countries which succeed in delivering financial services to the poor share eight pillars, where policy makers and stakeholders:

(1) foster innovation (including adequate utilization of IT solutions and mobile networks),

(2) ensure the contestability of the market by enabling the entry of new players and enhancing competition,

(3) invest in financial architecture,

http://globalpublicsquare.blogs.cnn.com/2011/08/01/innovations-in-access-to-finance/

(4) put in place a supporting regulatory framework,

(5) enact effective consumer protections,

(6) improve financial literacy,

(7) make financial services available to women, and

(8) ensure that policies reflect cultural considerations and local sensitivities.

Many developing countries are working toward building institutions and capacity in each of these pillars, and these efforts will set the stage for further innovation and scaling up of successful financial products that reach the poor. I would argue that with these pillars in place, many of the problems which microfinance has encountered in recent years could have been minimized and mitigated, such as some of the recent crises in microfinance and unwarranted political interventions, which are hindering the development of the sector.

**Read:** ***More from the Global Innovation Showcase created by the New America Foundation and the Global Public Square.***

On several levels, the evidence is clear: financial inclusion is an investment worth making. And the provision of microfinance, through a range of flexible and affordable financial services for low income households, is a viable, and indeed critical, tool to achieve financial inclusion and help improve the welfare of the poor.

*The views expressed in this article are solely those of Mahmoud Mohieldin.*

Post by: Mahmoud Mohieldin
Topics: Economy • Global • Innovation

1. ***Aly Amaar Iqbal***

Would the cultural considerations mentioned in the article include religious aspects and whatever is happening in the informal credit markets?

August 4, 2011 at 9:16 pm | Reply

2. ***Bryan Wright***

I like the specific policy recommendation (the eight pillars), but what about the sequencing of implementing them?

August 14, 2011 at 4:16 pm | Reply

**Post a comment**