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# Finance for All: How Mobile Phone Networks Are Democratizing Access to Finance

By Kay McGowan

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Access to finance remains one of the most common and most intractable development challenges. Whether your work focuses on improving agricultural yields for smallholder families, extending the reach of critical services such as power and water, or expanding access to education and healthcare, your ability to effectuate change at scale is likely constrained by the fact that formal financial systems were not built to work in the economic reality at the base of the pyramid. Traditional banking models, which rely on costly branch networks for their retail footprint, are simply too expensive to profitably deliver financial services on terms affordable to the poor.

Without access to safe, affordable financial tools including personal savings accounts, insurance, credit, or cash transfers from family members, the poor are effectively trapped in cash and the informal economy. They have little to buffer their families against potentially ruinous financial shocks – health crises, crop failures, livestock deaths, farming-equipment breakdowns, and even funerals. As a result of this financial exclusion, the poor stitch together a patchwork of informal, often precarious arrangements to manage their financial lives, leaving them vulnerable to predatory informal lenders or simply unable to cope with otherwise manageable problems. Small businesses and entrepreneurs are also hindered by the absence of available loan capital to finance start-up, operations, and expansion. From a macro-economic perspective, predominantly cash economies starve capital markets, reduce revenue to governments, and veil public and private sector payment flows in anonymity. Critically, this “cash trap” prevents businesses, governments, and donors from developing efficient models to extend vital services and invest in broad-based growth.

The mobile phone industry deserves much credit for “cracking” this finance challenge and building a business model that can effectively and efficiently reach customers at the base of the pyramid at scale.

Profound innovation can appear startlingly mundane at first glance. I was reminded of this recently when the CEO of one of Africa’s largest mobile carriers -- EcoNet’s Strive Masiyiwa -- observed that mobile phones were available in developing countries for more than a decade before they became affordable to the poor a few years ago. While the decline of handset costs certainly contributed, it was the advent of pre-paid billing for airtime that truly unlocked access to mobile phone services and has made mobile telephony the first self-financing infrastructure to reach the world’s poor. Prepaid airtime allows people to purchase mobile phone services on terms they can afford.

I like to think about mobile money as the natural next step of this evolution. As mobile infrastructure proliferates across emerging economies, it creates distribution networks that offer an unprecedented opportunity to build commercial transaction platforms with broad reach across societies. It expands financial inclusion by lowering transaction costs and unlocking the data needed to assess risk and better understand consumer behavior.

At USAID, we see these emerging digital transactions platforms -- and the services that can be built upon them -- as foundational building blocks of new digital economies. Mobile money systems are, in effect, a new form of critical market infrastructure that are the new paradigm within which financial transactions in the digital economy are conducted. I am quite certain we are only beginning to understand the potential of this paradigm shift and its implications -- not just for our work, but for the advancement of human prosperity and dignity.

Evidence from more mature markets in East Africa and Asia is starting to support the deep intuition many of us experienced a few years ago as we watched M-Pesa’s remarkable growth in Kenya – that widespread access to inclusive electronic payment services like mobile money can improve individual and household welfare by providing a pathway to financial inclusion and enable improved service delivery and enterprise through creative financing models on terms that work for the poor. A recent study of M-Pesa users suggests that mere access to a mobile wallet enables poor households to better manage risk and economic shocks. Similarly, early attempts to build savings and credit products on the backs of mobile payment systems are revealing vast unmet demand for fast, affordable financial services. Adjacent innovations such as businesses that finance the distribution of power and water via mobile payments are beginning to proliferate across emerging markets.

Though building and growing digital payment networks is hard work, we have reason to be hopeful. According to a recent industry survey, in nine African countries there are already more mobile money accounts than bank accounts. Importantly, executives from over 70 percent of these deployments plan to significantly increase their investments during 2014. And perhaps most significantly, we are beginning to see a shift in the business rationale for service providers – while mobile money was initially heralded as a way for phone companies to increase customer loyalty or "stickiness," we are now seeing digital payments generate significant revenue for telcos in a few markets. Banks and third party service providers are awakening to the opportunity to revamp their business models in order to capture market share.

Successful deployments require a balanced ecosystem involving regulation, policy, product design, agent/merchant networks, financial literacy/capabilities, use cases and demand tied to businesses models. I recently heard the Deputy Governor of Burma's Central Bank describe mobile money as "a global phenomenon that is inherently local." Getting the formula "right" in different markets requires many pieces of the puzzle to come together – regulatory frameworks that balance risk with urgent needs to ensure that these services reach unserved populations, and demand-driven supply.

As a development community, we have a role to play in shaping these relationships so that digital financial systems not only flourish, but extend to meet the needs of the poor and create the financial rails for businesses and services at the base of the pyramid. Similar to USAID's long, proud legacy of support to the microfinance industry, the Agency has worked hard in recent years to contribute to the growth of safe mobile money systems that, at scale, can create the foundation for a new era of services designed to meet the needs of the poor and promote broad economic efficiencies.