Savings at the Frontier (SatF)

A MasterCard Foundation partnership with Oxford Policy Management

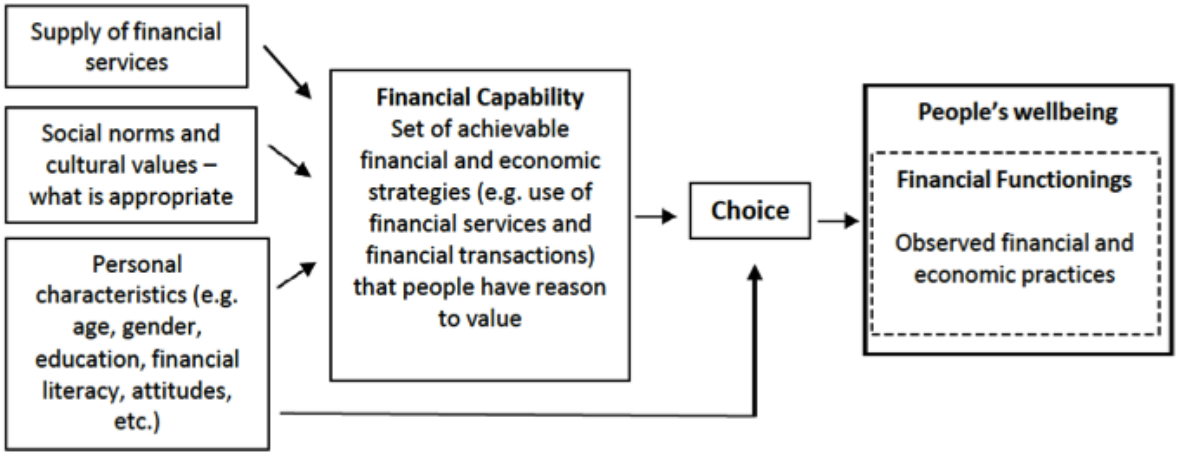
Blog piece 4: Financial Inclusion: Why Technology Will Only Get Us so Far

By Robert Stone

In his excellent debunking of the myth that technology solves everything, *Geek Heresy*, Kentaro Toyama argues that "technology's primary effect is to amplify human forces… Even in a world of abundant technology, there is no social change without change in people." That means a change in their capabilities, in the broadest sense, as defined by Amartya Sen, the Nobel Prize winning economist and philosopher. In Sen's work, especially in *The Idea of Justice*, he argues that justice requires people to have the freedom to do what they would choose to do if they could, if they had the capability to choose.

Many in the financial services sector have devaluated the meaning of 'capability' in the term 'financial capability', rendering it virtually synonymous with financial literacy. But Sen's approach requires us to go beyond the concept of financial literacy. Capabilities mean not only a person's knowledge and skills relating to financial management but also the whole range of characteristics that influence the ways in which people translate/transform resources and assets into achieved states of wellbeing. These capabilities are the outcome of a the various educational, economic, social and environmental factors that influence what people might value, and that at the same time constrain their ability to achieve what they have reason to value, as illustrated here:

Financial capability for wellbeing



Source: Silvia Storchi & Susan Johnson, 'Financial Capability for Wellbeing'

This approach has much in common with the CFI definition of financial capability, but goes a little way beyond it. In practice, the expanded approach has characterised the work of many NGOs that facilitate the formation and development among poor people of informal savings mechanisms such as savings groups and village savings and loan associations (VSLAs), which draw upon and enhance social and cultural capital as well as economic capital. While these informal mechanisms are valuable, however, on their own they cannot typically offer the full range of services that are provided by formal financial institutions such as banks. Banks, on the other hand, find it difficult to reach poor customers in a cost effective and sustainable way.

This is the dilemma that linkage banking aims to solve, and a junction where technology presents great potential. Is it possible to link formal financial service providers with informal groups in a way that enables the members of the groups to access a wider range of financial services, but without damaging the very special benefits that the high-touch savings groups bring to their members?

Savings at the Frontier (SatF), a joint initiative between The MasterCard Foundation and Oxford Policy Management, aims to address this question by learning from and expanding on on-going efforts to link informal savings groups and other informal mechanisms with formal financial institutions on savings, credit, insurance, and other financial services. The programme will be working through formal financial institutions, NGOs, mobile network operators, and others in Ghana, Tanzania, and Zambia. SatF will test, develop, and ultimately implement business models that harness vigorous, healthy and sustainable linkages between providers to expand product offerings to savings groups and other informal savings mechanisms.

What have been the early findings?
SatF's country assessments indicate that financial service providers are increasingly interested in serving this market. They fully recognise that technology, particularly mobile money technology, will be central to achieving the objective. The cost of servicing the small deposits of savings groups and their members, particularly in rural areas, would be prohibitive without harnessing the use of new and more efficient technologies that will support the sustainable scaling up of partnership with the groups. Such technologies are increasingly available and affordable. But, as Bill Gates put it in 1995 in *The Road Ahead,* quoted by Toyama, "The first rule of any technology used in business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency."

Technology is integral to the process, but it is not a magic bullet – it only gets us so far. The institutions themselves, and the people in those institutions – the financial service providers, the NGOs, the MNOs, the fintechs, and the informal groups – all need to find ways to adapt both their culture and their technology to enable the linkages to work sustainably for the benefit of all. Essentially, along with the importance of clients' financial capability is the importance of financial services providers' capability to evolve and partner. Only when these linkages are done efficiently and with integrity can the technology be an effective tool for extending financial inclusion.

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For more details, visit the Savings at the Frontier website, and stay turned for more findings as the project progresses.

Robert Stone is Project Director of the Savings at the Frontier programme. This blog draws on a paper delivered by Robert at the Bank of Tanzania's 18th Conference of Financial Institutions in Arusha in November 2016.

Savings at the Frontier is a $17.6 million partnership between Oxford Policy Management and The MasterCard Foundation. Its aim is to expand the range of financial products and services available to people living in poverty in Ghana, Tanzania and Zambia by testing and implementing business models that sustainably deliver those products and services to savings groups and other informal savings mechanisms. For more information, please visit http://www.opml.co.uk/projects/savings-frontier