

Qualitative Growth – Impact Contributions by Financial Sector Promotion

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Qualitative growth is vital for a sustained development process. The primary aim of financial sector promotion is to increase access to financial services in developing countries and create a sustainable financial system. Financial sector promotion is not an end in itself; in addition to the consolidation and diversification of the financial sector, qualitative growth is an important prerequisite for sustained economic development. The following paper discusses potential interdependencies and contributions to qualitative growth from the perspective of financial sector promotion.

Qualitative growth

Traditionally, the principal impact of financial sector promotion has been on the economic aspect of growth. An increase in lending to the private sector has a positive impact on investment activity and contributes to economic growth. This tends to improve employment opportunities, too. In addition to this macro-economic effect on economic development, however, financial sector promotion also has an impact on the social and ecological dimensions of qualitative growth, which are nevertheless difficult to comprehend separately from the economic aspects.

Distributive justice

If economically active poor members of society are reached by improved access to financial services, this will likely increase distribu-

Qualitative growth describes a development process which targets sustained economic, ecological and social progress. Qualitative growth means increasing welfare prosperity in society as whole, which does not necessarily mean a rise in incomes but which can also be expressed, for example, in an increase in distributive justice, equal opportunities, social security, peaceful coexistence and the preservation of natural resources.

tive justice. Entrepreneurial activity promoted through microcredit for example, can cause income to stabilise or rise. Many poor people in remote, rural regions find that initiatives such as branchless banking (bank transactions outside bank branches using mobile telephones) give them access to financial services for the first time. This can help reduce differences in income from the perspective of society as a whole and can thus cause the distribution of income to be regarded as fairer.

Equal opportunities

Factors describing equal opportunities include gender equality, the overcoming of social barriers and access to education. In the context of financial sector promotion, there are several interfaces with these factors. The majority of microfinance customers are women, which creates a comparatively close (positive) results correlation here. Income resulting from economic/entrepreneurial activity leads to independence and empowerment for women, although the gender effect can only be indirectly perceived or perceived via relatively long “results chains”. Access to loans alone is not sufficient to generate empowerment. The financing of education via the financial sector takes place through the provision of educational loans and grants, cooperation with businesses and, finally, special savings products (e.g. youth savings schemes – savings products for adolescents or for parents to cover the future education-related financial needs of their children, such as school expenses). Educational loans are demand-oriented in accordance with needs in the employment market. Loans and savings products of this kind facilitate the establishment of a long-term livelihood for those previously excluded from a sustainable means of earning a living and thus increase equal opportunities within a society. Although access to financial services cannot guarantee access to education and earning opportunities



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per se, it does represent an important potential which is worth exploiting.

Social security

The aim of financial sector promotion is to meet the financial needs of poor people in particular. The nature of these financial needs differs in extent, duration, time of occurrence and predictability throughout the lifetime of the poorer members of society. Poor people experience financial shocks which may be predictable, such as children starting school, marriage and old age, or unpredictable, such as natural disasters or accidents/illness (inability to work) at different times. Financial sector promotion attempts to alleviate these shocks and thus make a valuable contribution to social security as a complement to state benefits (of all kinds), which are generally completely inadequate: the mobilisation of savings activities helps to establish reserves for financial needs with a relatively definite starting point. Investments financed with microcredits and educational loans help to build up a basis for generating income, which creates a foundation for provisions for old age. Insurance such as crop insurance provides cover against natural disasters.

Peaceful coexistence

Financial sector promotion creates confidence in the future by promoting the mobilisation of saving activities or the establishment of deposit protection funds with the very aim of

creating this confidence. In conjunction with many other measures, this helps to reduce the potential for social conflict. As a result of this alone, national reconciliation processes can be strengthened in post-conflict countries.

Preservation of natural resources

Financial sector promotion also makes a long-term contribution to the preservation of natural resources through the financing of energy-efficient investments by businesses and private households, for example. Thus micro-credits for energy-saving light bulbs or new, energy-efficient heating or refrigeration equipment, for example, reduce the (rising) energy expenditure of households as well as

cutting down on CO2 emissions. Weather insurance is available to protect against the impact of natural disasters.

Summary

The various contributions which financial sector promotion makes to qualitative growth are summarised in the table below.

Qualitative growth is an important dimension of action in financial sector promotion and is already being addressed in various ways through Financial Cooperation approaches for encouraging peaceful coexistence (see table). It is hard to conclusively demonstrate its effect, however, since it is (still) difficult to

measure qualitative growth aspects at both individual and macro level. Whilst it is thus possible to make a good case for the existence of an effect, the measurement of the impact requires further studies, discussions and methodical developments.

Further information

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Dimension type	Distributive justice	Equal opportunities	Social security	Peaceful coexistence	Preservation of natural resources
Economic	Microfinance, deposit insurance scheme	Microfinance, educational loans, improved supply of labour market with well-educated workers	Microfinance, agricultural insurance	Microfinance, deposit insurance scheme	Energy efficiency loans
Social	Microcredit, branch-less banking	Educational loans, savings accounts, microcredit	Microinsurance, microcredit, savings accounts	Microcredit	Weather insurance
Ecological	-----	-----	Weather insurance	Weather insurance	Energy efficiency loans, weather insurance

