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Access to finance: quantum leap through digital payment systems

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Authors: Michael Rothe, Dr Wolfgang Ryll
Editor: Simone Sieler

All monetary transfers of value, cash or non-cash are collectively referred to as payments. While the use of cash has seen a sharp decline in richer countries and people tend to pay with their bank cards or via online banking, people in developing and emerging countries continue to depend on cash and physical access to informal or formal financial intermediaries to make everyday purchases, keep their funds safe and borrow or transfer money.

Financial exclusion is a key barrier to development

The high costs of handling cash and of operating brick-and-mortar branch networks are key barriers for extending formal financial services to the poor (especially in rural areas). As a result, they remain excluded from the formal financial sector.

A large number of studies has shown that adequate financial services particularly help the underprivileged to realize their economic potential, overcome financial shocks and thus lift themselves out of poverty or at least cushion the negative effects of poverty.

Financial exclusion constitutes a central barrier to inclusive development across society, including in many countries the (rising) middle classes. Financial products help to build up financial reserves and keep them safe (savings function), smooth consumption over time when income varies for seasonal or illness-related reasons (food, medicine, school fees etc.), mitigate poverty risks (e.g. health insurance, crop insurance etc.) and finance investments of small and medium-sized enterprises (SMEs), thus contributing to sustained growth and employment.

Financial exclusion particularly affects the underprivileged: more than two billion people around the globe (and among them more than 50% of the poorest, mostly women) have no access to formal financial systems. Experts estimate the current financial gap for SMEs in developing countries to amount to USD 2.2 trillion.

Facilitating access to financial services "for all" has therefore been laid down in the 2030 Agenda for Sustainable Development as a stand-alone target (SDG 8.10).

The potential of digital payments

Digital payments (e.g. via mobile phones and alternative payment points such as kiosks, petrol stations etc.) can reduce transaction costs for cash receipts and cash payments by 90% and more. This cost reduction turns population groups and companies that cannot generally be reached via traditional channels into economically attractive target groups – especially in view of the fact that by now nearly one billion people without bank accounts are in fact in the possession of a mobile phone.

The use of digital payments can also increase the chances of being granted a loan. The digital trail of regular payments enables lenders to assess credit worthiness. This stands to particularly benefit low-income households (e.g. small farmers) and informal SMEs, who are often unable to produce traditional securities or reliable bookkeeping.

Moreover, efficient and secure payment transactions benefit the overall economy: they reduce transaction costs in the real economy and therefore increase efficiency and competitiveness. Digital payments also boost transparency and can therefore help reduce corruption, money laundering and tax evasion.

Systemic and regulatory prerequisites

Unleashing the full potential of digital payment systems requires a number of systemic and regulatory prerequisites to be in place, including:

- broad access to mobile phones, mobile networks;
- an ubiqitous network of financail access points, including agents;
- secure digital payment systems (which meet industry standards to ensure interoperability across providers);
- robust and reliable data transfer systems for service providers (usually broadband backbone);
- an efficient national payment system including interbank payment system(s) (real-time gross settlement systems);
- effective infrastructures for customer identification and the exchange of credit information (credit bureaus) as well as
- appropiate and risk-based regulatory frameworks that promote innovation while safegurading consumers (well-functioning financial services supervision, data protection and deposit protection systems, level playing field between traditional players and new market entrants).

Conclusion: complex systems with high potential for development cooperation

Broadly accessible digital payment systems are key building blocks for inclusive growth and competitive economies. They are also particularly well suited to enhance access to finance for poorer and underprivileged population groups. Realizing the full potential of digital payments requires acknowledging the complex systemic interconnections and dynamics of digital payment ecosystems. ■