10 reasons to be optimistic that full financial inclusion is possible through digital payments

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The past decade has seen great strides in building awareness of the global financial inclusion agenda, and very positive steps in achieving tangible change. The latest Global Findex data\(^1\) revealed that 69 percent of adults - 3.8 billion people - now have a bank account. This is up from 62 percent in 2014 and just 51 percent in 2011. From 2014 to 2017, 515 million adults obtained a financial account, and 1.2 billion have done so since 2011.

The most important takeaway from these numbers is that the biggest gains overall and, the most significant progress in gender equality, are in countries where the government has made digital payments a top priority. The significant increase in the use of mobile phones and the internet to conduct financial transactions contributed to a rise in the share of account owners sending or receiving payments digitally from 67 percent to 76 percent globally. In the developing world, it went up from 57 percent to 70 percent between 2014 and 2017.

While there has been progress, the world faces a stark reality that too many adults remain unbanked - and the gender gap persists globally. In too many instances it is still very expensive to provide financial services to people with limited options for digital payments. The lack of payment options creates significant structural barriers to broader financial and economic inclusion.

Continuing to advance financial inclusion by facilitating access to digital financial services is a vital element in tackling inequality, improving prosperity, and empowering individuals worldwide - a fact recognized by its prominence on the global private and public sector agenda. The UN-based Better Than Cash Alliance, a partnership of governments, companies, and international organizations, has become a key agent for change. It has played a crucial role in driving progress by accelerating the transition from cash to digital payments.

As the world gets a progress report from the World Bank, the Better Than Cash Alliance outlines 10 key reasons to be optimistic about the journey toward full financial inclusion through digital payments.
TOP 10 SIGNS OF MOMENTUM
Over 50 governments and leading multilateral forums agree that creating an economy where digital payments are widely available needs to be a priority.

Because of the many benefits of digital payments even beyond financial inclusion – including cost savings, efficiency, inclusive growth, and greater transparency – digital payments are now a priority for leading global forums and most leading emerging market governments. This is creating a fundamental restructuring of economies; it is not a passing trend. The momentum and scale are building to a place where it is very unlikely governments will move backwards to cash-heavy transactions.
The role of digital payments in helping achieve many of the Sustainable Development Goals (SDGs) is giving the issue more prioritization than ever.

Over the past few years there has been a sustained movement to promote and drive financial inclusion. Alongside this activist mindset, there has been a growing awareness that accessible and practical digital financial tools underpin the success of the world’s most urgent priority issues and vulnerable populations.

In Kenya, the spread of mobile money lifted 194,000 households—roughly 1 million people—out of extreme poverty from 2008 to 2014.\(^2\)

In South Africa, the use of cards associated with the government cash transfers enhanced women’s financial inclusion by improving their decision-making power in the household. Becoming a primary decision-maker led to a 92% increase in the likelihood that women will participate in the labor market.\(^3\)

In Papua New Guinea, MiBanK launched a pay-as-you-go solar platform in 2016 that has the potential to reach 100,000 rural households by 2019.\(^4\)

Employees of an Afghan firm increased their overall savings after choosing to have a portion of their salaries automatically deposited into mobile phone savings accounts. During the first six months, the average worker saved an amount equivalent to about 37% of the average monthly salary.\(^5\)
Governments have made significant progress leaving cash behind in their own payments.

Across the world, forward-looking governments have been implementing their own digitization strategies and taking clear steps to usher in change in their wider economies. With over 1 billion digital IDs, over 1 billion mobile phones, and 300 million new bank accounts opened since 2014, India’s drive to digitize the economy and promote a cashless society is improving economic opportunities and financial inclusion. Sweden is another prime example, with the country witnessing a 40 percent reduction in cash and coin in circulation, since its peak in 2007, due primarily to government-led policy initiatives. Some of the emerging market countries that are leading in digitizing their own payments include China, Colombia, India, Kenya, Philippines, Rwanda, and Uruguay.
Beyond steps to digitizing their own payments, leading governments in emerging markets are embracing broader modernization to create economies where people can pay and get paid digitally.

Beyond digitizing their own payments, governments across the globe are quickly recognizing the vast economic opportunity presented by digitization throughout the economy. This includes the structural benefits in boosting productivity, increasing job creation and economic activity, widening access to credit, and improving wider private sector business environments. By way of example, Morgan Stanley forecasts that India’s digitization drive will help its GDP reach $6 trillion in 2027.  

According to the International Monetary Fund, digitization promises to reshape fiscal policy by transforming how governments collect, process, share, and act on information. More and higher-quality information can improve not only policy design for tax and spending, but also systems for their management, including tax administration and compliance, delivery of public services, administration of social programs, public financial management, and more.

The benefits for everyone – governments, businesses, merchants, citizens – are becoming clearer and this is creating further momentum. Countries that have made progress in creating economies where digital payments are widely available include Bangladesh, Colombia, Estonia, India, Korea, Mexico, and Uruguay.
Best-in-class companies are moving to digital supply chains, shifting away from cash.

The digitization of supply chain payments has the potential to deliver major business benefits, including reducing administrative costs, risk of fraud and theft, and improving productivity. It can also improve workers’ financial security and standard of living. For example, gaining access to a formal financial account, through automated payroll or payment systems, can be the first step toward financial inclusion and the other benefits such as increasing savings.

The journey from cash to digital payments in the garment sector, for example, is gathering pace. Global brands, such as Gap Inc. and Marks & Spencer, have set goals to work with their tier 1 suppliers to ensure workers, across their supply chains, can be paid digitally by 2020.

In Bangladesh, the Better Than Cash Alliance recently examined a selection of manufacturing factories that had transitioned workers’ wage payments from cash to digital in the last five years. From a factory perspective, transitioning to digital could save around 750 hours of production a month, thanks to workers spending less time away from the production line. It could also reduce costs by more than 85 percent within two years of paying workers via a hybrid mobile money/bank account model. Moreover, moving toward a digital economy supports financial inclusion by drawing previously unbanked workers into the formal financial system and building financial skills.

Leading companies that are committed to transitioning to digital payments throughout their value chain include Unilever, Coca-Cola, Gap Inc, H&M, and Grupo Bimbo, as well as business organizations such as the World Cocoa Foundation. Similarly, Walmart, The Walt Disney Company, and other companies invested in Working Capital, a GBP23 million fund to promote transparency in global supply chains, with an initial investment in blockchain technology.

“Digital payments provide us with the opportunity to advance transparency, and create economic opportunities for our farmers and retailers. This transformative change needed to meet the Sustainable Development Goals.”

—Jeff Seabright, Chief Sustainability Officer of Unilever
Though the transition away from cash as a financial inclusion strategy is relatively new in emerging economies – governments, companies, and humanitarian organizations are already seeing results.
COST SAVINGS
The Government of India saved almost $9 billion in less than four years, in social protection payments through electronic Direct Benefits Transfers. Other governments have had similar experiences. In Rwanda, the digitization of bus fares led to a 140% increase in revenue due to reductions in leakages.

FINANCIAL INCLUSION
All people make payments. As a result, digitizing payments is a faster, more cost-effective way to expand access to broader financial services. In Kenya, M-Shwari offers its clients loans based on their transaction and payment history with M-Pesa. In Mexico, two studies found that poor households who opened a bank account continued to make deposits into them, while also increasing the frequency of remittances they received through formal channels.

SECURITY
By turning to digital payments during the Ebola crisis in 2014, Sierra Leone substantially improved the security, transparency, and efficiency of paying response workers. Payment time was shortened by one week and fewer strikes avoided the loss of 800 working days.

TRANSPARENCY
Digital payments are less subject to “leakage” than cash. In India, social security pension payments made digitally on smart cards resulted in a 47 percent reduction in leakages from 2010 to 2012. The same study also found that the use of smart card-based payments of the National Rural Employment Guarantee Scheme in Andhra Pradesh led to a 24% increase in earnings among beneficiaries in the same period, without impact on fiscal outlays, suggesting a reduction in leakages.

WOMEN’S ECONOMIC EMPOWERMENT
Digital payments can help overcome some of the additional barriers to financial inclusion and economic participation women face. For example, in Niger, digital delivery of a social benefits payment resulted in greater privacy and control of mobile transfers, compared to cash, resulting in intra-household decision-making in favor of women.
Innovations that make digital payments faster, cheaper, and more accessible hold great potential, but they cannot shortcut responsible digital finance guidelines.

Whether blockchain, real-time payment systems, new credit-scoring models, or other new financial services solutions - the pace of innovation continues to gain momentum.

Central banks are already exploring the potential of digital technology and taking steps toward fully fledged digital fiat currencies. For example, eCurrency and Rizal Commercial Banking Corporation recently partnered to launch digital cash in the Philippines, with support from the country’s central bank. Steps have also been taken in other countries such as Indonesia and Senegal.

However, it should be remembered that innovation doesn’t automatically lead to financial inclusion. To be effective, new technologies need to adhere to responsible digital finance guidelines.*
Provide client recourse

Support client access and use through interoperability

Treat clients fairly

Keep client funds safe

Ensure product transparency for clients

Design for client needs and capability

Take responsibility for providers of client services across the value chain

Protect client data

Provide client recourse

Successful adoption is being driven by building common, accessible, and functional super platforms.

In many countries around the world, the rapid growth of social networks and e-commerce super platforms has transformed the way people communicate and transact on a daily basis. Digital payments are now being added as a service on these platforms, drastically increasing access and adoption of digital financial services in the coming years.

In China, the growth of WeChat and Alipay has led to the development of one of the world’s largest and most sophisticated digital payments ecosystems. Both platforms combined enabled US$2.9 trillion in Chinese digital payments in 2016, representing a 20-fold increase in the past four years.\(^{18}\) This has not only had a profound impact for millions of consumers, but has opened up new markets for micro, small, and medium enterprises.
Investment in new technology and infrastructure has real potential to expand digital finance into rural and remote regions.

Access to mobile telecommunications and internet services facilitates greater access to digital financial services and grows a wider digital payments ecosystem. This is why efforts to expand energy access and internet connectivity, if successful, will help establish the infrastructure needed to expand digital finance into rural, high-poverty regions – where the vast majority of the financially excluded reside.

Improvements in energy access and internet connectivity are providing the vital building blocks toward an inclusive digital payments ecosystem. Pay-as-you-go solar companies have already used digital finance to distribute over 2 million solar home systems, providing 10 million people with affordable, modern energy. New initiatives such as the Telecom Infra Project Power Working Group, which is co-chaired by Facebook and Telefonica, have the potential to accelerate the development and application of new technology, to expand digital infrastructure into remote locations.
Governments are recognizing that digital finance infrastructure must be part of long-term resilience plans in the context of humanitarian crises.

As the frequency and severity of natural disasters and health crises inflict suffering and loss of life, governments are recognizing the importance of having robust digital financial infrastructure in place before disaster strikes. A recent United Nations study revealed digital payments to Ebola response workers in Sierra Leone significantly cut payment times and ensured a stable workforce to combat Ebola. In a country where there are fewer than 50 ATMs, Sierra Leone found digital payments a much more efficient, reliable, and secure tool to send funds to relief workers operating in very remote and isolated locations. It saved US$10.7 million, and more importantly, thousands of lives in the process.20

The United Nations’ World Food Programme (WFP) and the UN Refugee Agency (UNHCR), and leading NGOs like Care International, are also embracing innovative digital payment solutions. For example, they are using iris scans and smart cards in their humanitarian aid and relief efforts for refugees, in countries like Jordan and Lebanon.
After five years of working with governments, companies, and international organizations to create inclusive economies through digital payments, and improve lives, these are among the top signs that momentum is building. While there are many causes for optimism, providing access to digital payments and a financial account is just the first step. After all, if these tools are available but are not being used, then they do little to deliver meaningful change for the millions of unbanked and excluded people around the world.

While improving access to digital payments has been highly effective in driving financial inclusion in recent years, this first wave of progress is nearing the limits of its impact in many parts of the world. The time is now right for the next wave of progress, driven by proactive measures to drive acceptance and adoption, underpinned by collaboration among the private, public and development sectors.
2. Suri and Jack, 2016
3. Van Biljon et al., 2018
4. PFIP, 2017
5. Blumenstock et al., 2017
6. UIDAI, 2018; GSMA, 2016; Government of India, Ministry of Finance, 2018
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8. Morgan Stanley, 2017
10. Bangladesh caselet, Better Than Cash Alliance 2017
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18. China case study, Better Than Cash Alliance, 2017
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20. Sierra Leone case study, Better Than Cash Alliance, 2016
About The Better Than Cash Alliance
The Better Than Cash Alliance is a partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth. Based at the United Nations, the Alliance has over 60 members, works closely with other global organizations, and is an implementing partner for the G20 Global Partnership for Financial Inclusion.