Mobiles for Learning, Financial Inclusion and Development

(Slide 1)

Introduction

This presentation is an introduction to the module of Mobiles for Financial Inclusion and Development.

The objective of this presentation is to familiarize you with the role of mobile phones in rural development particularly in the context of financial inclusion. **(Slide 2)** We will discuss the concept of development, the role of technology particularly mobile phones in the development process, the need for financial inclusion to promote development, the challenges in the financial inclusion and the role of mobile phones in strengthening the financial inclusion.

This general introduction will be further elaborated by various experts when you take the elective course of mobiles for learning and for financial inclusion.

Let us see the following scenario

Stage I: I do not have a mobile phone

Stage II: I have a rudimentary simple mobile phone

Stage III: I have a smart phone

Can we say that the transition from stage I to stage III constitutes development? **(Slide 3)**

It is true that from “no Phone” to smart phone would require additional income which would enable me to buy the handset and support the services. While at a first glance , it looks like “development”, we should be careful before coming to the conclusion. I would have stopped my daughter from going to school , saved the school fee and would have brought phone. I may not allow my wife to use the phone. I would have reduced the expenses on milk for children and would have bought the phone. Now tell me, will this constitute development?

The Concept of Development

The concept of development is bit more complicated and definitions differ according to different schools of thought. The classical economics focused more on production and growth and looked into the issues of demand, supply, market and price. Indicators such as Gross Domestic Product (GDP) were generally perceived as indicators of development **(Slide 4).** The Marxist school laid emphasis on the transition from the capitalistic mode of production to collective mode of production stressing the distributive aspects and the role of labour masses in managing the economy. The Development Economics approaches of scholars like Michale Todaro, Amartya Sen saw development as a not a mere economic phenomenon but a multi-dimensional socio-economic dynamic process. In addition to income, consumption and food, concepts such as self-esteem, dignity were included as a indicators for development. Amartya Sen's influential contributions , focused on freedom, entitlement and capability as the important dimensions of empowerment **(Slide 5)**. He pointed out that "*The process of economic development has to be concerned with what people can or cannot do, e.g. whether they can live long, escape avoidable morbidity, be well nourished, be able to read and write and communicate, take part in literary and scientific pursuits ...". It has to do in Marx's words with,replacingthe domination of circumstances and chances over individuals by the domination of individuals overchances anc circumstances"* (1983: 754). Gender and women studies stressed the role of empowerment in development.

Miilenium Development Goals

Such discourses influenced intentaional ageices such as United Nation and its bodies. The Human Develoment Index developed by Mahbub Ul Haq for United Nationals Development Programme (UNDP) emphasises on shifting the focus of development economics from national income accounting to people-centered policies". The Human development Index and the Human Development Reports of UNDP assessed development in terms of indicators such as life expectancy, education, income. This led to the evolution of Millennium Development Goals (MDGs) which are the eight internationally agreed goals **(Slide 6)** :

- Eradicating extreme poverty and hunger
- Achieving universal primary education
- Promoting gender equality and empowering women
- Reducing child mortality rates
- Improving maternal health
- Combating HIV/AIDS, malaria, and other diseases
- Ensuring environmental sustainability
- Developing a global partnership for development

While the objective of the MDG is to achieve these goals by 2015, may countries still lag behind in achieving these goals.

Financial Inclusion and Development

According to the World Bank, about 2.5 billion adults lack access to formal financial services, limiting their ability to benefit from economic opportunities, improve their health and education, and raise their income levels **(Slide 7)**. Financial literacy is another crucial factor in financial inclusion. A report of the World Bank points out that in one of the major developing countries 60% of the adults do not understand the term “interest”.

The private and public capital formation in agriculture in many developing countries have been declining. Such a trend has resulted in poorer investment patterns in rural areas leading unemployment, lower income and poverty.   Non-institutional credit was the major source of capital and in many cases it also became unviable economic tool resulting in the vicious cycle of exploitation and poverty. The transaction for agricultural credit in rural India ranges from 11.5% to 16.5% (Sathyasai:2008) **(Slide 8)**. Similarly the Non-Performing Asset Rate , i.e. the default rate or the non-repayment of interest and principle in the priority sector (which includes agriculture) ranges around 45 %. The major reasons for such high NPAs are improper support system, lack of insurance, imperfect market, problems in the value chain, opportunity costs for farmers in obtaining credit, financial illiteracy etc.

The emergence of microfinance , community banks and self help groups have added a new dimension to the rural finance. Many countries have started adopted proactive approach towards financial inclusion. During 2011, more than 80 countries came together in a Mexico a signed a declaration called Maya Declaration whereby they have agreed to **(Slide 9)**

- Create an enabling environment to harness new technology that increases access to and lowers the costs of financial services;
- Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability;
- Integrate consumer protection and empowerment as a key pillar of financial inclusion;
- Utilize data for informed policymaking and tracking results.

Such a process of financial inclusion is expected to enhance the entrepreneurial qualities of the rural poor and help them to achieve better quality of life.

Mobile phones and Financial Inclusion

The role of the mobile phones have to be looked from this perspective. The following questions need to be asked **(Slide 10)**.

- Can it help to reduce the transaction costs of credit?
- Can it play a role in improving credit management?
- Can it reduce the opportunity costs of the rural poor in obtaining credit and lead to better investment strategies in agriculture?
- Can it increase the financial literacy and enable the farming community and the marginalized sections such as women to make informed choices?

If you can get yes as an answer than mobile phones will have a constructive role in adding value to the development process.

I met this lady in Bukoba, Tanzania **(Slide 11)**who is managing a Saving and Credit Cooperatives of women.

Ms. Federes Gaso

M Paisa facility in the SACCO

She and the members of the SACCO had to travel long distances from their villages to come to the SACCO for depositing their savings. This involved substantial travel costs and other opportunity costs. Then the SACCO introduced M Paisa system and the women are able to transfer the money to SACCO without leaving their villages. This has improved saving and reduced transport costs as well as drudgery for women.

Look at this lady Ms. Peria Jakkamal from Theni district in India **(Slide 12)**. She had never been to school. She borrowed money under a programme called Lifelong Learning for Farmers . She borrowed a loan along with 5000 other women from a bank and started a goat rearing enterprise. She agreed to learn using mobile phone with audio based learning materials in her language on various aspects of goat rearing as well as on financial literacy . Studies show that such a learning has helped her to earn better income and become empowered. Bank points out that the credit repayment rate is very high among such learners.


Ms. Peria Jakkamal

Mobile phone by itself cannot be a sliver bullet for development **(Slide 13)**. Innovation is more about harnessing such technologies in an appropriate socio-economic and political context for reaching various development goals. There are various innovative models such as M Pasia, Mobiles for Microfinance etc which have shown that mobile phones can be effectively utilized if they are positioned according to the needs of the primary stakeholders such as rural community and other secondary stakeholders.

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