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Making Change on a Mobile Handset

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Mobile money is spreading at a rapid pace throughout Asia, Africa and Latin America. There are 203 million registered mobile money accounts worldwide and 256 mobile money services in operation, an impressive 100 percent increase over 2011. The promise of digital financial services is clearly reflected in the number of registered mobile money users and in the formidable example of Kenya's digital finance revolution. This scope and expansion of digital financial services was one of the topics discussed at the recent World Economic Forum annual meeting in Davos.

As both public and private investment grows in this space, more rigorous research is needed to understand the full potential of this digital revolution in financial services for the poor. Usage remains low; according to 2013 data reported by GSMA, only 30 percent of the 203 million registered mobile money accounts have been used at least once in the last three months. Evaluations can help uncover effective strategies to encourage adoption and usage of digital payment channels, improve the design of financial products, and understand whether improved access translates into welfare effects for moderate and low-income households.

The limited evidence available to date suggests that mobile payments may help foster risk sharing across households. Research in Kenya found that access to M-Pesa lowered transaction costs and led to increased transfers between households, who were then better able to withstand economic shocks, an effect which was particularly marked for poorer households. Another study in Niger indicated that distributing welfare transfers over mobile money led to substantial time-savings and increased intra-household bargaining power for women. Women were better able to conceal when the funds were available and were thus able to discuss with their husbands how the funds should be spent. As a result, households also saw an increase in the diversity of their diets and the number of meals that children consumed each day.

More work is needed to overcome some of the key barriers, to fully take advantage of these services and to understand whether digital financial inclusion can make the poor better off. To this end, Innovations for Poverty Action's Global Financial Inclusion Initiative is partnering with researchers and financial service providers to implement several evaluations on digital financial services, with the support of the Bill & Melinda Gates Foundation and the Citi

Foundation. Below, we highlight four of our ongoing studies that offer particularly relevant insights on how research can help advancements in this field. In these studies, we test hypotheses on how digital financial services can help people conduct transactions more securely, at lower cost, with different information on financial decisions and behavior, and experiencing fewer social constraints.

Digital channels for salary payments. Garment factory workers in Bangladesh receive their salaries in cash or through digital channels, as a mobile money payment or as a direct deposit into a basic bank account. This study examines to what extent digital channels lower the costs of distributing payments (payroll administration) and receiving payments (transaction costs for workers). It also looks at effects on workers' wellbeing, financial behavior and work productivity.

Advertising a mobile commitment savings account. A mobile network operator (MNO) in Rwanda is offering its customers a mobile phone-based savings product. With this new product, customers are able to send money to themselves in the future and therefore commit to saving until a pre-specified date. The MNO and researchers are testing the impact of price and the framing of advertising delivered via text message on adoption, usage and welfare.

Default contributions to a mobile savings account. Employees at a large firm in Afghanistan, who receive their salary payments via mobile money, can automatically set aside a percentage of their salaries to be transferred to a long-term savings account on a mobile platform. We are testing various incentives and informational text messages to encourage enrollment and long-term savings.

Mobile savings account for education expenses. In Kenya, parents wanting to save for their children's high school education are offered a new account that is designed to help them save for these expenses. The account allows clients to deposit money into a mobile money "lockbox." If clients reach their savings goal date, they will earn an interest rate bonus on their balance. This study tests the impact of this product on savings and school enrollment.

Results from these evaluations on innovative applications of the mobile platform for financial services will help policymakers and practitioners uncover key insights to improve the design of these products. More fundamentally, our research can be used to determine how the mobile platform can effectively foster and scale affordable financial services for the poor.
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