



GEST-Y-002

**Module “Digital finance”**

**Course: Digital finance**

2<sup>nd</sup> semester EMP 2020-21

**Module manager: Prof. Baptiste VENET**

**Planning**

<b>Date</b>	<b>Time</b>	<b>Lecturer</b>	<b>Guest speaker</b>	<b>Place</b>
08/03/2021	6 pm to 9 pm	Prof. B. Venet		remotely
09/03/2021	6 pm to 9 pm	Prof. B. Venet		remotely
10/03/2021	6 pm to 9 pm	Prof. B. Venet		remotely
11/03/2021	6 pm to 9 pm	Prof. B. Venet		remotely
17/03/2021	6 pm to 9 pm	Prof. B. Venet	Prof. S. Morvant	remotely
18/03/2021	6 pm to 9 pm	Prof. B. Venet	Prof. S. Morvant	remotely
23/03/2021	6 pm to 9 pm	Prof. B. Venet	S. Brawerman	remotely
24/03/2021	6 pm to 9 pm	Prof. B. Venet	S. Brawerman	remotely

## Objectives of the course

LO 2.2

- Address key issues in digital finance.

LO 3.1

- Understand the business models, role and responsibilities, risks and benefits behind mobile money, agency banking and digital credit.

LO 1.2

- Address the motivations of MFIs to launch mobile money and agency banking services.

LO 1.1

- Present an overview of social grants (government to people-G2Ps), their evolution and their use to foster financial inclusion.

## Topics covered and recommended readings

The share of adults owning a banking account is now 69 percent worldwide. However, about 1.7 billion adults remain unbanked, most of them living in the developing world (Demirguc-Kunt et al., 2017, pp. 2 and 4). The World Bank Group has therefore launched in 2017 the World Bank Universal Financial Access (UFA2020) initiative. According to this initiative, by 2020 the adults who are excluded from the formal financial system will be able to manage their financial lives by having access to a transaction account allowing them to store money and send and receive payments.

What are the consequences of digitizing finance in emerging and developing economies? What do we know about the behavioral changes in DFS users (impacts on savings, remittances, etc.) and about the changes in users' welfare and economic activity?

### **1 and 2) Digital Finance Services (DFS) and financial inclusion**

- Mobile microfinance is a possible way to improve the access of poor people to financial services.
- What are the main advantages and drawbacks of digital finance?
- M-Pesa and M-Shwari in Kenya
- What do we know about the behavioural changes in DFS users (impacts on savings, remittances, etc.) and about the changes in users' welfare and economic activity?

References:

- Kapoor, M., J. Morduch and S. Ravi (2007), "From Microfinance to m-Finance," *Innovations*, winter/spring, Microcredit Summit Annual Report: 82-90.

- Venet, B. (2019), “FinTech and Financial Inclusion,” in Hudon, M., M. Labie and A. Szafarz (eds.) *A research Agenda for Financial Inclusion and Microfinance*, Cheltenham: Edward Elgar Publishing, 162-173.

### **3 and 4) Mobile banking**

Mobile banking: the impact of Orange Money use on clients’ behavior in Madagascar.

The Digital finance banana skins: Main concerns about the use of DFS

### **5 and 6) The coupling of digital social grants with financial inclusion**

#### **Guest Speaker: Prof. Solène Morvant**

While more than half of the world population still lacks any kind of social protection (International Labour Office 2017), social programmes have been strongly supported by the World Bank and other international organisations such as ILO since the end of the 1990s. Known as *government to people cash transfers* (G2P) or *conditional cash transfers* (CCT), such redistribution policies aim to fight short and long run poverty and hunger by setting up a “social protection floor” (International Labour Conference 2011) for the low-income population segments in the Global South (Hanlon et al. 2010).

While the primary goal of cash transfers is to alleviate poverty and vulnerability, evidence points to spill-over effects over a wide range of development outcomes, including education, health and nutrition as well as embryonic forms of citizenship (ibid) casting renewed relationships between the state and wider segments of the population.

Digital Social Payments, its promoters argue, have the potential to increase the efficiency and transparency of the programmes, reduce their delivery costs and enhance their outreach in rural and isolated areas (Klapper & Singer 2017). Digital social payments, not only allow a shift away from hand-to-hand cash distribution but also expedite the implementation of a broad financial inclusion agenda. Indeed, in countries where fewer than 30% of the population has access to financial services (Demirguc-Kunt et al. 2015) the transition to digital social payments was the first step to introducing a wide array of banking services such as basic bank accounts (current, savings, etc.), credit and payment services.

This combination is supposed to induce a virtuous cycle where, on the one hand, G2P transfers are viewed as efficient instruments for fostering financial inclusion, and on the other, the expansion of financial inclusion through digital-transfer-channels further facilitates the payment and potential impacts of government cash transfers.

#### **Topics covered and recommended readings**

- Present an overview of social grants (Government to people-G2Ps) and their evolution
- Look at the ways G2Ps have been used to foster financial inclusion
- Big data to craft new public policies

Mandatory readings (will be shared with the students) :

- Gronbach, L., “Social Cash Transfers and (Digital) Financial Inclusion in South Africa,” Working paper.
- Langevin, M. (2019), “Big Data for (Not so) Small Loans: Technological Infrastructures and the Massification of Fringe Finance,” *Review of International Political Economy* 26(5): 790–814.
- Maurer B. (2017), “Value Transfer and Rent: Or, I Didn’t Realize My Payment Was Your Annuity,” in Hart, K. (eds.) *Money in a Human Economy*, The Human Economy, Volume 5, New York: Berghahn Books.

References:

- Duryea, S. and E. Schargrotsky (2008), *Financial Services for the Poor: Welfare, Savings and Consumption*. World Bank. Retrieved from: <http://siteresources.worldbank.org/INTFR/Resources/DuryeaSchargrotsky150208.pdf>
- Hanlon, J., A. Barrientos, D. Hulme (2010), *Just Give Money to the Poor: The Development Revolution from the Global South*. Sterling, VA: Kumarian Press.
- International Labour Office (2017), "World Social Protection Report 2017–19. Universal Social Protection to Achieve the Sustainable Development Goals," Geneva: International Labour Organisation.
- Klapper, L. and Singer D. (2017), "The Opportunities and Challenges of Digitizing Government-to-Person Payments," *The World Bank Research Observer* 32(2): 211–26.
- Maldonado, J. H., Moreno-Sánchez, R., Giraldo Pérez, I. and Barrera Orjuela, C. A. (2011), "Conditional Transfer and Financial Inclusion Programs: Opportunities and challenges in Latin America," in short 22(June): 1–13.
- Mariscal, J., Renteria, C. (2013), "Implementation of Information and Communications Technologies for Financial Inclusion in Programs to Alleviate Poverty in Brazil, Colombia and Mexico," in *E-Government Success around the World: Cases, Empirical Studies, and Practical Recommendations* (IGI Global). Gil-Garcia; J. Ramon; Mahmood; Zaigham.
- Morvant-Roux S. and M. Carmona (forthc.), “La financiarisation des politiques sociales au Mexique : la laborieuse conversion des transferts monétaires en produits financiers”, [Mondes en développement](#).
- World Bank (2015), *The State of Social Safety Nets 2015*, The World Bank.

## 7 and 8) Digital finance business models for MFIs

**Guest Speaker: Samuel Brawerman, Digital Finance Expert**

It has become almost an evidence that digital finance, under some conditions, can lead to greater financial inclusion (Ozili, 2018, p. 330). While Microfinance Institutions (MFIs) are increasingly facing pressure to develop digital finance, finding a suitable business model, which

matches with the MFI's objectives, capacities and capabilities, is often complex and challenging for them.

In the light of the above consideration, the main objective of this course is to understand the different business models, role and responsibilities, risks and benefits behind Mobile Money, Agency Banking and Digital Credit for each of the different stakeholders (i.e. Banks, MFIs, Mobile Money Operator, Agent Network Operators, etc.)

### **Topics covered and recommended readings**

#### **1) and 2) Digital finance business models for MFIs**

##### **Digital Finance: The Distribution Channel**

- Understanding the different business model between MFI's core business, Mobile Money and Agency Banking. How are they different? How can they be complementary? What are the opportunities and risks?
- Understanding the different reasons why Mobile Network Operator launch Mobile Money services. Is it only for profits or are there other benefits?
- Detailing the different reasons why MFI might want to launch Mobile Money and Agency Banking services. Risks for MFIs when providing Mobile Money or Agency Banking for the wrong reasons.
- Detailing the Profit and Loss statement of Mobile Money services. Describing the major costs items and provide some key ratios.
- Describing the different roles an MFI can play in the Mobile Money world and their high level business model – Agent; Super-Agent; Aggregator; Loans to end customer; Loans to agents; Loans to merchants; Trust accounts

##### **Digital Finance: The Digital Products**

- Exploring the traditional financial product delivered via Agent networks (Bank-to-Wallet, Wallet-to-bank) and pur digital product
- Detailing the role of the of financial institutions in a digital credit product.
- Exploring the risks of digital credit

##### **References:**

- Kaffenberger, M. (2018) Helping or Hurting? 10 facts about Digital Credit in Tanzania” Blog Series Digital Credit: Borrower Experiences and Emerging Risks <https://www.cgap.org/blog/helping-or-hurting-10-facts-about-digital-credit-tanzania>
- Rafe Mazer, R. et K., McKee (2018) “Digital Consumer Credit: FourWays Providers can Improve Customer Experience”, CGAP (<https://www.cgap.org/research/slide-deck/digital-consumer-credit-four-ways-providers-can-improve-customer-experience>)
- GSM Association (2019), “GSMA State of the Industry Report on Mobile Money 2019 Summary”, Yearly SORTIR report series (<https://www.gsma.com/sotir/>)

- Goyal, S. et al., (2017), “Understanding business model – literature review of concept and trends”, *Int. J. Competitiveness*, Vol. 1, No. 2, 2017
- Mader, P. (2016), Microfinance and Financial Inclusion, *The Oxford Handbook on the Social Science of Poverty*, Oxford: Oxford University Press
- Manyika, J. et al., (2016), “Digital Finance for all: powering inclusive growth in emerging economies” Mckinsey Global Institute
- Ozili, P. O. (2018), “Impact of digital finance on financial inclusion and stability”, *Borsa Istanbul Review* 18-4 (2018) 329-340
- Alliance for Financial Inclusion (AFI) (2016), “Digital financial services: basic terminology,” *Guideline Note No.19*, Alliance for Financial Inclusion (AFI)
- “MicroLead's DFS Toolkits: How to Succeed in your digital journey,” A series of practical guides and case studies from UNCDF MicroLead, Mastercard Foundation and PHB Academy  
<http://www.uncdf.org/microlead/download-the-dfs-toolkits-from-microlead>

### **Evaluation (all parts)**

Written assignments: date to be confirmed.

Pairs of students have to write a short essay (from 10 to 20 pages) dedicated to the use of new technologies in microfinance and financial inclusion. It could be either a theoretical or an empirical writing.