Title
The Impact of New Technology on the Use of Money as a Means of Spending, Saving and Storing by the Poor (Synopsis of Research Results)

Author
Colombage, Sirimevan S.S.

Publication Date
2010-10-01

The Impact of New Technology on the Use of Money as a Means of Spending, Saving and Storing by the Poor

Project Year

2009

Region(s)

South Asia

Country(ies)

Sri Lanka

Project Description

This project involves the administration of a survey in Sri Lanka. The objectives of the study are to ascertain how poor people in Sri Lanka spend, save and store their money; how the introduction of mobile banking might alter these practices; how people perceive modern technology-based banking; the potential for the expansion of communications technology to benefit the poorest people; and policy actions needed to enhance financial inclusion. The research involves a survey instrument and an experienced co-researcher who will rely on an established network of enumerators trained by the government's Department of Census and Statistics. The case at hand is Sri Lanka, an island country in the Indian Ocean characterized by a large rural population, a significant portion of whom live on plantation estates. Mobile telephone penetration is 38% and Rural Community Information Centers have been initiated by the government to try to bring information and communications technologies to villages throughout the country.

Researcher(s)

Sirimevan S.S. Colombage

About the Researcher(s)

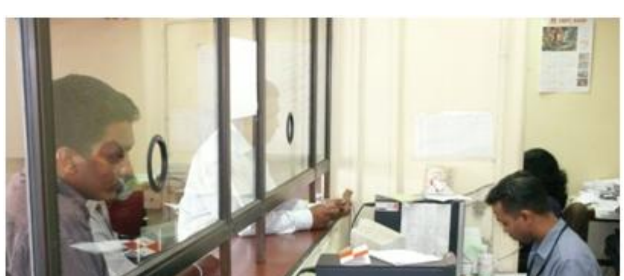
Sirimevan S.S. Colombage received his PhD in Economics at the University of Manchester in 1985. He is currently the Chair of Social Studies at the Open University, Sri Lanka. Prof. Sirimevan S. Colombage served the Central Bank of Sri Lanka and Ministry of Finance as a Senior Executive in research and policy planning departments for thirty-one years, was formerly the Director of the Department of Statistics of the Central Bank of Sri Lanka, and has worked closely with the Department of the Census and Statistics.

Synopsis of Research Results

Sri Lanka being predominantly a rural economy, around four fifths of the poor lives in rural areas. Lack of access to basic necessities such as safe drinking water, food, clothing, shelter and educational attainment is a major barrier to socioeconomic upliftment of the communities in these villages. Poverty is highly concentrated in rural areas where connectivity to towns and markets. Inaccessibility to financial facilities has made them more vulnerable. Households with similar characteristics may have different chances of being poor depending on where they are located. Specifically, a household located in a remote village is more likely to be poor than a similar household living in a metropolitan area. Agriculture, which is the main economic activity in these villages, does not give enough income to the farmers to have a decent meal. The poor living in these areas are unable to improve their cultivations or off-farm activities as they do not have access to formal financial institutions. They have to travel miles and miles to reach a nearest bank branch. They are compelled to walk such distances, as regular public transport is not available in most instances. Even when they go to banks spending several hours on the road, they have to spend some more time in the banks to get the transactions done. They may also be shabbily treated by bank officers. Filling of application forms and furnishing the documents required by banks add further burden on them. Loan facilities are not easily accessible due to collateral and other stringent requirements. Hence, peasants have to borrow money from private money lenders or village boutiques at very high interest costs. So the rural poor are practically excluded from the formal financial institutions preventing them from crossing the poverty line.

Using mobile money (m-money) systems or mobile banking (m-banking) would be an effective means to deal with the problem of financial exclusion and thereby empowering the rural poor. This is proved by the success stories in countries such as Bangladesh, Kenya and the Philippines. The objective of this study is to examine whether there is potential to use mobile phones to facilitate financial transactions of the poor living in remote rural villages in Sri Lanka. Qualitative information for the study was collected through focus group discussions. Based on these findings, a structured questionnaire was prepared, and it was used to collect information from 1,000 households in the field from different districts of the island. Of them, around 850 households responded.

As in the case of several other developing countries, Sri Lanka has experienced a phenomenal growth of mobile phone usage in the past decade. The number of mobile phones in use rose from 430 thousand in 2001 to almost 14 million by 2009. This implies that every 7 persons out of 10 have a mobile phone. The findings of the study reveal that mobile phones have penetrated even in rural areas where there is acute poverty and lack of access to formal banking institutions. Around 53 percent of the moderate poor and 48 percent of the ultra poor have mobile phones. Thus, there is tremendous potential to popularize mobile banking among the poor in the country.



Despite the widespread use of mobile phones, there are hardly any mobile banking operations in the country. Phone banking accounts for only 0.1 percent of the country's total non-cash payments. Traditional bank checks, which account for nearly 90 percent of non-cash payments in the country, continue to be the dominant instrument. The shares of internet banking and credit/debit cards are 5 percent and 2 percent, respectively. According to our survey, 17 percent of the total number of households have some knowledge about phone banking. Interestingly, 11 percent of the moderate poor and 15 percent of the ultra poor are also aware of phone banking. But phone banking usage is exclusively limited to the non-poor. Overall, only about 1 percent of the total number of households use phone banking. In comparison, 23 percent of the households including the poor use ATM.

According to the survey, only 0.8 percent of the households use their mobile phones for mobile banking. Even such tiny applications are limited to commercial bank customers making it an additive model. The majority use mobile phones for communication purposes including SMS messaging, which is very popular among the youth. A larger proportion of mobile phone users are familiar with some form of e-transactions. For instance, it is reported that USD 10 million worth of reloading was carried out by small communication shops and boutiques located in rural areas for a particular mobile network last year. In this process the clients hand over the money to such small shopkeepers as a prepayment to increase their balance for mobile phone usage. In most instances, these transactions take place without any documents, and this implies that the mobile phone clients have confidence in such small shopkeepers and mobile phone companies. So, phenomenon of mobile phone transactions is slowly catching up among the islanders.

Our focus group discussions reveal that most of the bank customers are unaware of the mobile banking facilities provided by their banks. A major reason for this could be that mobile banking is not widely publicized. In Sri Lanka, the mobile phone operators have not yet launched mobile money systems. As a result of the lack of widespread use of phone banking, the country has been losing opportunities to use mobile phones so as to extend financial facilities to the poor who do not have access to formal finance. Hence, the mobile transactions platform needs to be harnessed in the country without further delay to overcome the problem of financial exclusion, and thereby to help the poor to improve their living conditions. An area where there is a possibility to launch mobile banking is the microfinance industry. There are hundreds of microfinance institutions operating throughout the country focusing on the poor. Microfinance is based on a network of small groups in villages consisting of about five members, mostly women. Most of the members of the groups that we interviewed have mobile phones, but none of them use mobile banking at present. They, however, expressed willingness to use mobile banking if available at affordable cost. There is also potential to use mobile banking among the families of migrant workers working abroad. Their remittances amount to $ 3.5 billion a year which is about one third of the country's import bill. These families receive such foreign exchange from their relatives abroad on a regular basis through formal and informal channels. Family members living in remote areas, which do not have easy access to banks, told us during the interviews that they undergo various difficulties in receiving the money due to long distances to banks and various formalities. Therefore, they mentioned that it would be convenient for them to use mobile phones not only to receive money from abroad but also to do the local transactions. Thus, there is tremendous potential in the country to launch mobile money systems so as to empower the rural poor.

connect with us