

Social Innovation to Promote Financial Inclusion in the Microfinance Sector in Mexico

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Abstract

This research aims to propose improvement actions to integrate social innovation in the microfinance sector to promote financial inclusion in Mexico, to provide financial services to low-income people. Since the infrastructure, the supply of financial products and services in Mexico is highly concentrated in urban areas in the center and north of the country, for which there is the challenge of expanding them to a greater part of the population to reduce the income gap coverage in rural areas and in southern Mexico. The research is descriptive, phenomenological, qualitative, and non-experimental. As a result of the investigation, a proposal for improvement actions was designed that integrates social innovation to promote financial inclusion in Mexico. The proposal focuses on the use of technological applications that are being used in the country and is supported by social innovations identified in some successful cases in the microfinance sector worldwide.

Keywords

Social Innovation, Financial Inclusion, Microfinance Sector.

1. Introduction

According to the Consultative Group to Assist the Poor (CGAP, 2019) at present, "microfinance is considered as a component of the financial inclusion system in general, made up of various actors whose common objective is to provide high-quality financial services to low-income people."

The institutions that provide financial services (savings and credit) to the poorest, are known as microfinance institutions and are identified as the popular finance sector, these popular finances include organizations such as: cooperatives, private companies, non-profit civil society organizations profit and community-based organizations (Zárate, 2010).

The proposal of improvement actions to integrate social innovation in the microfinance sector can increase financial inclusion in Mexico, since the technology would be closer to the market to which this sector is directed, relying on this transformation as a tool in case of contingencies. such as Covid 19, which served as a catalyst to increase the use of digital technologies and platforms. In Mexico about 80% of people still pay in cash and a large part of this reason is the conditions of the system to carry out purchase-sale operations. The proposal of this research could help municipalities where the people who inhabit them still must move and spend an average of \$50 Mexican pesos to reach the nearest physical bank channel.

1.1 Objectives

Propose improvement actions to integrate social innovation in the microfinance sector to promote financial inclusion in Mexico, to provide financial services to low-income people.

2. Literature Review

2.1 Social Innovation

The social innovation approach has been a key factor in improving the living conditions of the population and has represented a contribution towards advancing compliance with the Sustainable Development Goals (SDGs) (OECD, 2020). Social innovations (table 1) can be distinguished first by their goals. While for business innovations are (mainly) profit oriented, social innovations (mainly) aim to create positive results with social impact. For example, mobile money transfer is facilitating access to financial services for marginalized people. Community microgrids offer poor communities access to reliable services (Reynolds, Gabriel, & Heales, 2017).

Table 1.- Dimensions of Social Innovation

Dimension	Description	Authors
Degree: Incremental to Radical	Incremental: small modifications that do not require significant changes or investments Semi-radical: significant changes, which can be deep, but not radical, and affect the organization's capacity for growth Radical: changes that require investment and replace products/services or processes, which carries high risk and high expectations	Christensen (2006)
Scope: Product or process	Goods or services: new or significantly improved products Processes: new or significantly improved production or distribution methods (equipment, technicians, software) Marketing methods: significant changes in design, packaging, selling, positioning Organization methods: new forms of business practices, organization, and relationships	CEPAL (2018)
Opening: Open or closed	Open: deliberate use of knowledge inputs and outputs to accelerate internal innovation and expand markets for external use of innovation Closed: patent and licensing system	Chesborough et al., (2006)
Origin: Intra or between	Social intrapreneurship: can benefit from the entity's infrastructure, human resources, and financial support Social entrepreneurship: an independent initiative	Elis (2012), Vernis & Navarro (2011)

New technologies offer the possibility of expanding financial inclusion. Technological innovations such as mobile phone payments, mobile banking, and identification of borrowers through the use of biometric data (e.g. fingerprints, iris scanning and facial recognition, etc.) facilitate the use of financial services and increase financial security (World Bank, 2014).

2.2 Financial Inclusion

Financial inclusion means for individuals and businesses, having access to useful and affordable financial products that meet their needs—transactions, payments, savings, credit, and insurance—provided in a responsible and sustainable manner (World Bank, 2018). Digital financial technology, and in particular the increase in the use of mobile phones worldwide, have facilitated the expansion of access for small businesses and populations to reach financial services at a lower cost and with less risk (World Bank, 2018):

- Digital identity documents make it easier than ever to open a bank account
- The digitization of cash payments has allowed more people to start using accounts for bank transactions
- Mobile phone financial services allow convenient access even in remote areas.
- Greater availability of customer data allows providers to design digital financial products that are better suited to the needs

2.2.1 Microfinance

Microfinances are very small loans intended for low-income clients. As most microfinance clients have little or no collateral, providers resort to the -social guarantee- of a person, through groups of borrowers who mutually guarantee their loans (Findev, 2019). These small-denomination group loans were the first product offered by the microfinance sector and were created to help those seeking to start or invest in a small business or agricultural enterprise (Findev, 2019).

Research shows, however, that microfinances are often used for a variety of purposes beyond business investment. Loans also help people cope with unpredictable income levels, making funds available to cover basic needs and manage crises such as death or illness (Findev, 2019). Financial service providers are trying to better understand the financial needs of low-income people and design products based on these needs, we can conclude that microcredit is a tool for financial inclusion.

2.2.2 Worldwide successful cases of social innovation in the microfinance sector

At a global level, we have the cases of Bangladesh, Peru, and Kenya, which, by meeting the needs of the groups they are aimed at in their respective countries and applying the necessary strategies, designed an application to attract a niche market, promoting their clients to carry out financial operations, managing to increase the use of its application and consequently promote financial inclusion.

BKash Limited (bKash) (Bangladesh): Is a Bank-managed mobile financial services provider in Bangladesh operating under the license and approval of the Central Bank (Bangladesh Bank) as a subsidiary of BRAC Bank Limited. BKash provides safe, convenient, and easy ways to make payments and money transfer services through mobile phones for both unbanked and banked people in Bangladesh (Bkash, 2019).

Bim (Peru): With the Bim mobile application it is not necessary to carry cash since it is possible to carry it safely without having coins or bills. It's cheap and you'll save time. Downloading the Bim app is free (BIM, 2019). The mobile wallet is a worldwide trend, thanks to which you do not need a bank account, you only need a smartphone, open Bim and load money at an authorized agent, through the cell phone, it is possible to send, receive and withdraw money, recharge the cell phone, and pay for services.

M – Pesa (Kenya): M-Pesa allowed sending minutes and text messages through mobile phones. Thus, its users began to pay for products without having to handle physical or even digital fiduciary money. Now phones can be used to transfer currency to virtual accounts, which are independent from banks and other financial institutions” (Chief, 2019). The low rate of African banking greatly restricts its growth possibilities. "With rates historically below 20%, it is very difficult to promote long-term savings or social security, on the one hand, and on the other it makes them absolutely dependent on foreign credit" (BBVA, 2017).

3. Methods

In this research, the categories "Social Innovation and Financial Inclusion" (table 2) are identified, to know the performance, innovations in low-income clients and promote financial inclusion in Mexico. Due to the above, the phenomenological research was selected, since it is necessary to know the experience of the groups that make use of social innovations in the microfinance sector to promote financial inclusion in low-income clients.

Documentary analysis was used, this type of research can also be found as bibliographic research, which is characterized using secondary data as a source of information. Its main objective is to direct the investigation from two aspects, firstly, by relating existing data that come from different sources and later by providing a panoramic and systematic view of a certain question elaborated in multiple dispersed sources (Taylor & Bogdan, 1986). The non-experimental design was used, with the intention of knowing if these social innovations used in the microfinance sector have promoted financial inclusion to provide financial services to low-income clients in Mexico.

Table 2. Research categories and subcategories

Categories	Subcategories
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Social Innovation	<ul style="list-style-type: none"> *Systematic social changes through scaling. *Satisfy an unmet need. *Offer less expensive products and services. *Serving a market considered unattractive by established players
Financial Inclusion	<ul style="list-style-type: none"> *Access or penetration to financial services. *Use or contracting of financial products. *Consumer protection and defense. *Financial education.

For the social innovation category, four subcategories were identified based on what was proposed by Christensen (2006), while for the financial inclusion category, four subcategories proposed by the National Commission for Financial Inclusion (2014) were identified. These categories and subcategories are reflected in the proposal for improvement actions for the integration of social innovation to promote financial inclusion in Mexico.

4. Data Collection

The information was collected from October 2019, the date on which the Codi Platform was implemented in Mexico to carry out transactions digitally, this platform is an alternate version of the platforms already implemented in Bangladesh, Peru, and Kenya. Specifically, data collection and information analysis were carried out in the period from 2019 to 2021.

Data analysis and interpretation: The factors that enhance financial inclusion in representative countries versus Mexico were reviewed; A comparative analysis of the technological applications used by Bangladesh, Peru, Kenya, and Mexico was carried out, preparing a proposal for improvement actions for the integration of social innovation to promote financial inclusion in Mexico.

5. Results and Discussion

Promote financial inclusion through the development of digital banking. In January 2019, the governor of the Bank of Mexico (Banxico), Alejandro Díaz de León, pointed out that they were working on a platform that would bear the name of CODI (Digital Payment), to promote the use of electronic payments. “This platform would undoubtedly benefit a broad population from young people to segments that have been excluded from the financial sector,” he said. (Financiero, 2019).

CODI: It is a platform that “allows you to request payments, developed by Banco de México, which makes it possible to carry out purchase-sale operations of goods or payment of services in seconds in an efficient and secure manner. The operation is initiated by the seller of the good or service through a collection message, which the buyer receives and accepts. The result of acceptance of the collection message by the buyer is an electronic, interbank, or same bank transfer. Once the transfer is complete, both the buyer and the seller are notified in real time” (Banxico, 2019). Unlike the Bkash, Bim and M-Pesa applications from Bangladesh, Peru and Kenya respectively, Codi from Mexico seems to have been created to reduce the use of cash in the population that already has a bank account, since this platform is immersed, and it is done from the user’s bank app to be able to execute collection and payment operations for a good or service. Below, Table 3 shows a comparison of these applications.

Table 3. Comparative applications

Platform (Apps)	Bkash	Bim	M - Pesa	Codi
Country	Bangladesh	Peru	Kenia	Mexico
Voice assistant for operations	✓	✗	✗	✗
Services	Savings, Credit, Insurance and Payment of services			Collection and payment
Method	App, QR, Agent, ATM	App, Messenger, Agent, ATM		QR
Monthly operations	Detail of consolidated monthly transactions			

Send, receive, and withdraw money	✓	✓	✓	✗
Security for operations (PIN)	✓	✓	✓	✓

Platform (Apps)	Bkash	Bim	M - Pesa	Codi
Country	Bangladesh	Peru	Kenia	Mexico
Payment alerts	✓	✗	✗	✗
Transactions in shops or agents	✓	✓	✓	✓
Customer service	Spotlight, through the platform	Agent and Platform		Platform

With the current technological advances and that with a very short period, one technology replaces the other. It is important to integrate into the digital age that by your own decision or due to external aspects you must be prepared and have the elements to respond in order not to be left behind in technological development. Figure 1 presents the proposal of actions to be developed.

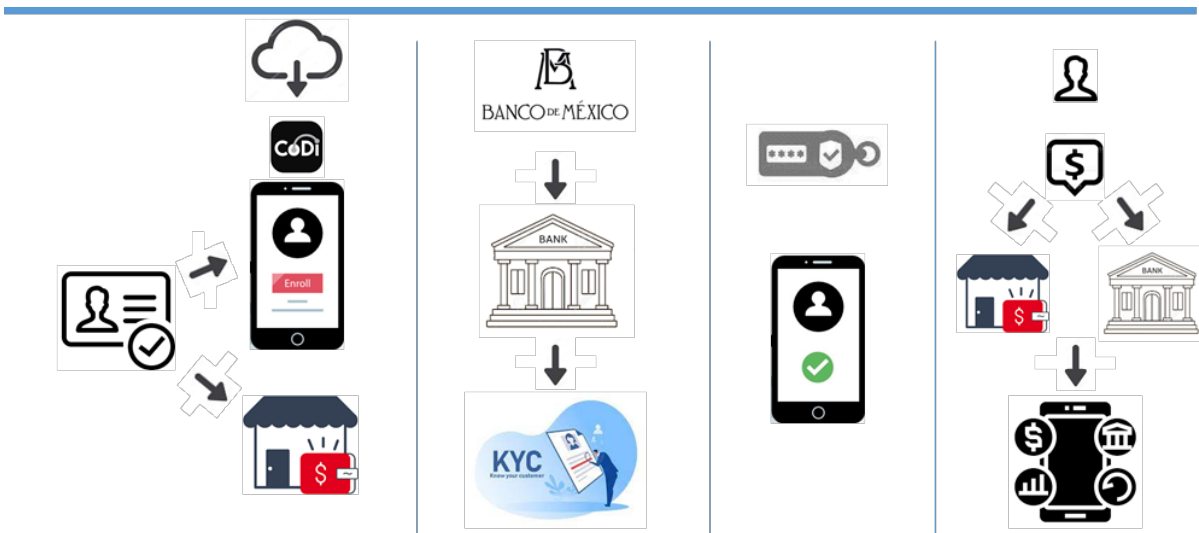


Figure 1.- Proposal of actions

With the intention of benefiting from the existing infrastructure and expanding financial inclusion in Mexico, the proposal of actions to be developed (see Figure 1), considers:

- Strengthen financial education programs prioritizing rural areas.
- Take advantage of and improve existing agreements between Banks and Banco de México.
- Services aimed at vulnerable unbanked groups in Mexico.
- Make use of the services without a bank account clearly opened by the client, but through the application or banking correspondent with the approval and support of the Bank of Mexico, with the service of a banking institution.
- Validation of clients with legal and binding documents by eKYC (Birth certificate, driver's license, passport).
- Transparent service for the customer.

The COVID-19 contingency served as an accelerator for digital transformation in all economic sectors and became a measuring instrument to determine the level of personal, private, and public preparation. In the financial sector in Mexico, several branches and customer service offices had to be closed temporarily and many permanently, without being able to serve their customers in person, even telephone service had an impact by reducing to the number of agents that provide service, which caused an increase in the use of digital channels and although many others continued to use cash.

5. Conclusion

The general objective of the research is to determine if the social innovation strategies used by the microfinance sector promote financial inclusion in Mexico, to provide financial services to low-income people.

The cases of Bangladesh, Peru and Kenya with their bKash, Bim and M-Pesa applications, respectively, made it possible to point out innovative strategies applied in the microfinance sector with successful results that promoted financial inclusion through the identification of a greater number of people with mobile phones in the areas where they are located and that in some cases this model extends to other countries.

All the above allowed the design of a proposal for social innovation actions so that the microfinance sector extends financial inclusion in Mexico; Well, knowing the origin of microcredit and the combination of social innovation and financial inclusion that other countries managed to successfully unite. The Codi application that currently works in Mexico was taken and that until today its use is generated by those account holders of some banking institution, excluding those who do not have a bank account. Therefore, by taking the best practices of applications such as bKash, Bim and M – Pesa and replicating them in the Codi application, there is a high probability of success and consequently that the microfinance sector extends financial inclusion in Mexico.

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Biographies

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