Innovation doesn't have to be disruptive

It is clear that technology is changing the landscape of financial services in rural Africa, writes Howard Miller, an associate consultant at Nathan Associates, and Grace Njoroge, a financial inclusion advisor at KPMG.

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From the largest banks to the smallest fintechs, financial service providers are gearing up for a world in which finance is digital first and in which anyone with access to a mobile phone can also derive benefits from formal financial services.

The rapid uptake of mobile money in many countries has sowed the seed for a thousand new innovations that could further extend inclusive financial services. An outcome of this success has been that everybody in digital finance is looking for “the new M-Pesa”, in the same way that elsewhere, entrepreneurs want to be “the Uber of…” An underlying assumption here is that change is generally linear until a special company comes along with an idea that creates non-linear change, which we often call disruption.

But when you map this idea onto the landscape of unbundling that financial services are currently going through, it is not so clear that disruption is what’s needed. It used to be that a bank, or a microfinance institution, or an insurance company, would aim to provide a vertically integrated service to the customer, from initial acquisition to all aspects of relationship management and back end services.

This is changing. Technology, and in particular the ability for different platforms to link with each other, opens up new opportunities for collaboration. Not everyone needs to develop the next big product or service – there may be much more value and impact for a fintech company to build a business-to-business solution that works at a specific pain point for a financial institution.

For example, the Mastercard Foundation Fund for Rural Prosperity is supporting a partnership between Juhudi Kilimo, an asset financing company, and the Entrepreneurial Finance Lab to develop a psychometric credit scoring tool for smallholder farmer borrowers with no or limited verifiable credit information. This is a tech-enabled solution for a specific challenge – how to estimate likelihood of repayment in a data-light environment – that could reduce costs and improve efficiency of Juhudi Kilimo's credit processes.

> "*Innovation can be highly effective without being disruptive.*"

A similar partnership in the fund portfolio is between First Access, a fintech company, and Esoko, an agricultural information and communications company. The two will develop a rural agricultural credit-scoring platform for lending institutions from disparate data sets, from soil and weather data to mobile phone usage and farmer profiles. The solution has the potential to impact a large number of farmers who do not have traditionally accepted banking histories.

These are great innovations, that could have a real impact on micro and small business finance, but they probably won't be putting other lenders out of business. And that's fine. Innovation can be highly effective without being disruptive.

There's nothing wrong with ambition, and there is certainly scope for massive changes in Africa's rural finance markets. But if you focus too hard on the next disruption you can lose sight of the great ideas that represent an evolution, not necessarily a revolution. At the Mastercard Foundation Fund for Rural Prosperity, we love big ideas. But the most important aspect of the big idea is the impact it has on the livelihoods of rural communities in Africa, not necessarily on how it disrupts the structure of the financial system.

So if you want to apply for support from the fund, we're not so fussed about if you're the next big disruption to African financial markets. We want a credible plan that overcomes some of the many challenges of financing rural populations, and can have a real impact on the lives of people living in or close to poverty. We want ideas that work from the bottom up, which solve real problems. Maybe you'll be disruptive. If you're not, that's fine too.