

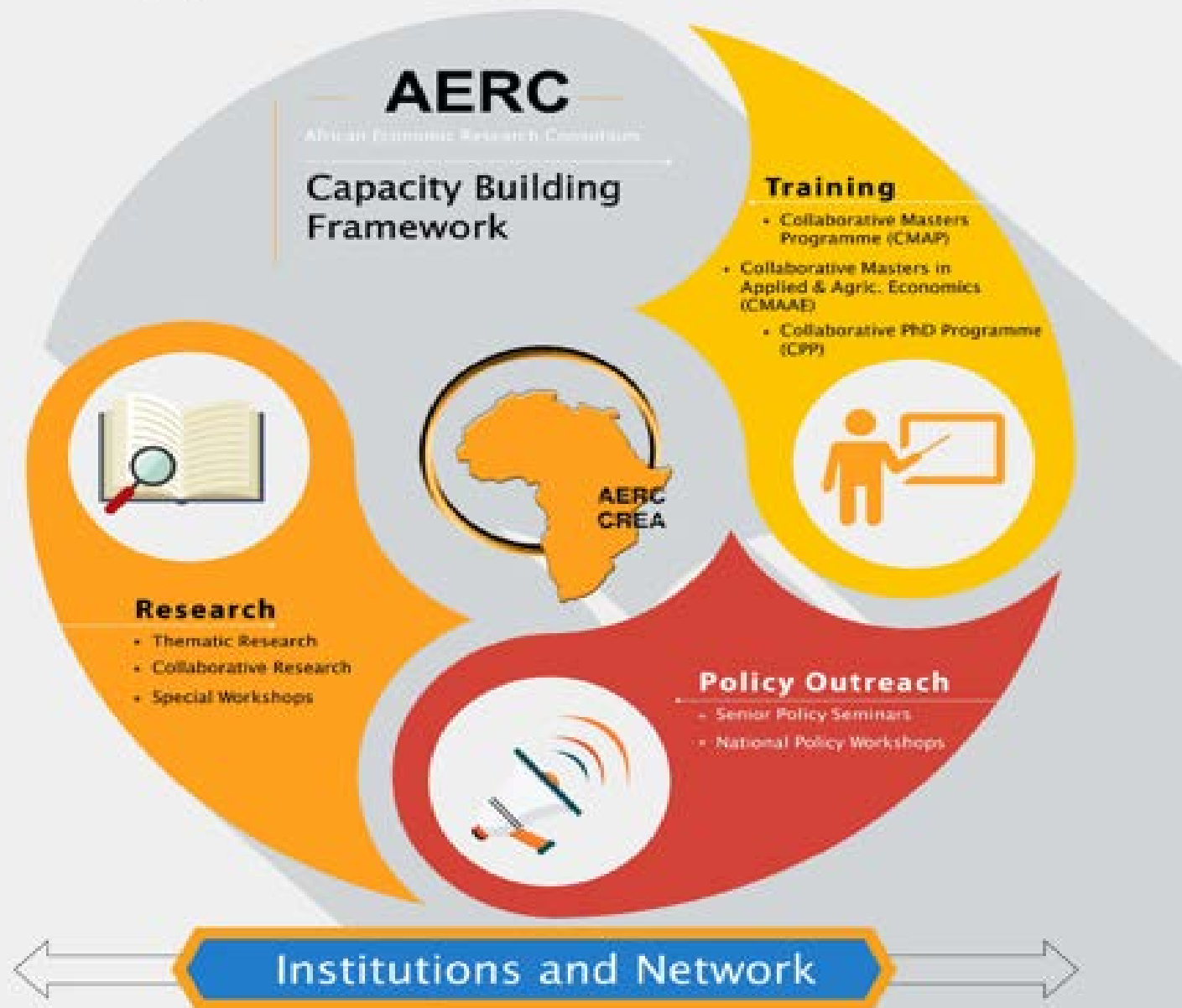
# Digital Space and Financial Inclusion

Special Issue Conference: Financing for  
Development  
University of Namur

Njuguna Ndung'u  
African Economic Research Consortium (AERC)

*June 22, 2021*





# The AERC's Approach to Capacity Building and Knowledge Generation

# I. Digital Evolution is Pushing a New Frontier

---

- An evolution of financial services – they are inclusive – room to push for financial development.
- In Africa, citizens can reach out to government services via e-Government.
- Governments have been able to design and develop targeted social protection programs – especially now with the COVID-19 Pandemic and lockdowns.
- Revenue Authorities have been able to design innovative electronic tax payments platforms as well as digital revenue administration.
- FinTechs have designed business models with electronic payments platforms that cut across all sectors of the economy.
- E-learning platforms have been developed and have emerged as important tools for training, capacity building and e-working.

## II. Digital Space for Financial Services – 5 Important Outcomes

---

- ❑ **First: A Retail Electronic Payments System has evolved** – it is effective, efficient, transparent and safe – **but above all inclusive and real time.**
  - Retail electronic payments is an easier entry point for financial services and even for the informal markets – navigates across market segments
  - Those retail electronic payments platforms are operated from commercial banks – they increase activities at the retail level.
  - No need to visit the bank – accessibility – this is very important in African economies.
  - Once a successful electronic payments platform is operational, it becomes a game-changer – FinTechs can roll out new products across all sectors of the economy.

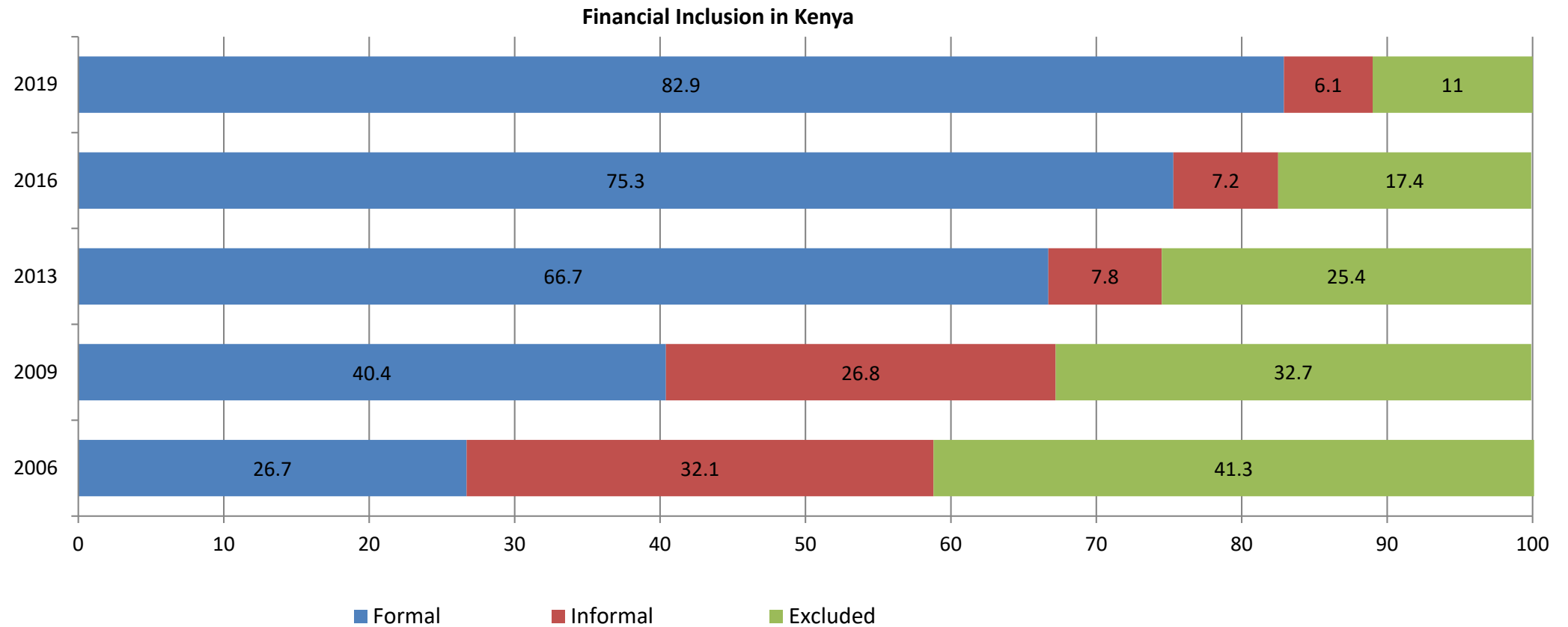
# Financial Inclusion - and its attendant benefits

---

- ❑ **Second: Financial inclusion has been a success** and there is evidence of financial development, inclusive finance and poverty reduction
  - i. The retail electronic payments ecosystem - commercial banks discovered a technological platform to manage micro depositors and microsavers.
  - ii. Virtual savings and virtual credit supply platforms have emerged – with a credit scoring for pricing short term loans – changing the **collateral technology** that has checked credit market growth.
  - iii. Strong banks with intermediation capacity have emerged.
  - iv. Allows the formulation of an effective and forward looking monetary policy.
  - v. Has allowed monitoring of financial transactions - improved the AML/CFT regime.
  - vi. Women can save in instruments that cannot be encroached, they are efficient savers.
  - vii. Tavaneet and Jack (2017) shows that 2% of Kenyan households have been lifted from poverty – So Financial Inclusion leads to Sustainable poverty reduction.

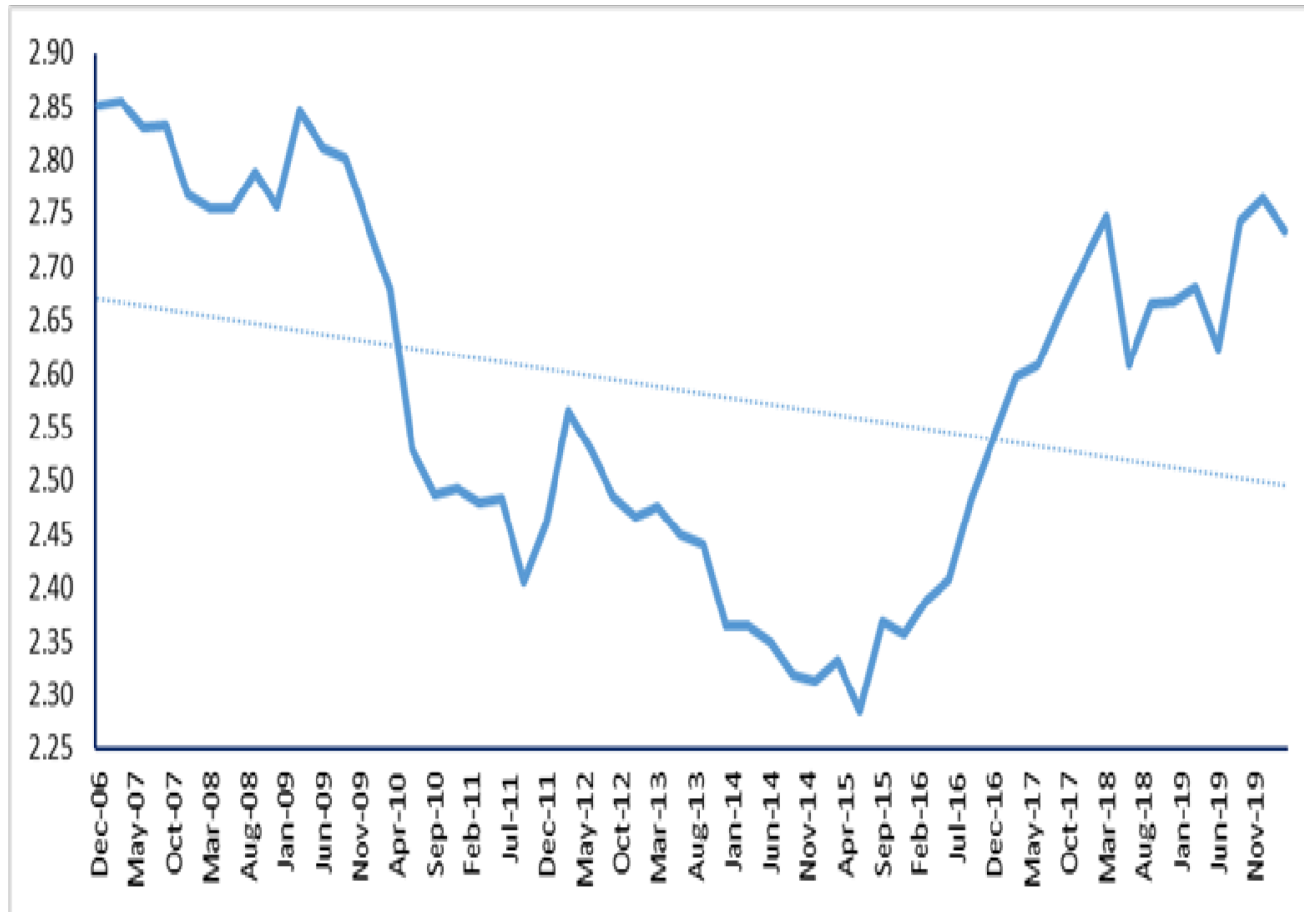
# Financial Inclusion Success

## Financial Inclusion over 2006 to 2019 Period in Kenya

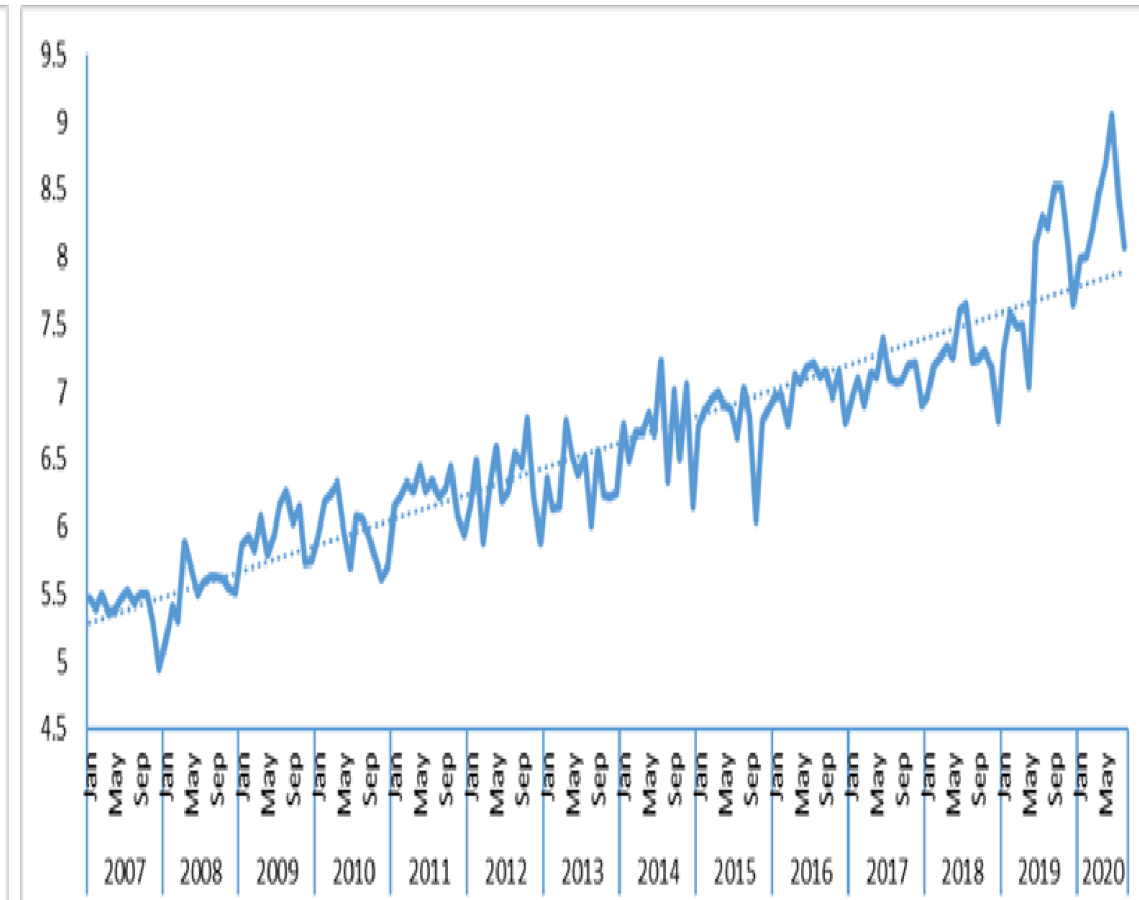


# Monetary Policy Framework had to Conform

## Velocity of Money



## Money Multiplier





# Digital Space and Financial Inclusion – The Outcomes



Banking the unbanked: Mobile money has revolutionized business in Kenya.



# Sustainable Business models Across all Sectors of the Economy

---



- ❑ **Third: FinTechs can roll out sustainable business models.** Business models that cut across all the sectors of the economy and an agenda for inclusive development.

Some Examples:

- i. One Acre Fund – Raised productivity and incomes for smallholder farmers.
  - ii. *M-Kopa* on domestic Solar energy supply.
  - iii. Water vending machines for urban slums for poor households.
  - iv. Crop insurance models, virtual health insurance products (*M-Tiba* on financing health services).
  - v. Kenya's *M-Akiba* on investments in Government securities in Kenya using cell phones.
- ❑ **Fourth: Digitization and public finance design:** Tax policy designs, tax payments platforms and revenue administration to minimize leakages.
- ❑ **Finally: Platforms for e-government services** that are effective and easy to reach, as well as for Government to design efficient social protection programs – has worked during the COVID-19 Pandemic.

# Digital Space and Financial Inclusion – The Outcomes



*Less than 2 years since its launch, mobile health platform **M-Tiba** has reached 1 million people in Kenya. - PharmAccess on Twitter (July 2018)*

# III. Sustaining the Digital Space for Inclusive Development

---

- **Connectivity** – Inclusiveness – no one should be left behind - the infrastructure for fibre optic cables is important– **Scalability** of the digitization process - sustainability.
- **Interoperability** of retail electronic payments platforms, support appropriate market development.
- **Electronic-ID** system to cope with market innovations and security.
- **State and Institutional capacity** - Cope with market innovations and dynamism – capacity for the institutions to regulate and protect the market but also nudge the market to frontier of innovation.
- **Development Path** – The Digital space defines a new normal and perhaps Africa's development Path.

*From AERC*

*Ahsante Sana*

*Thank You*

*MERCI BEAUCOUP*

*[www.aercafrica.org](http://www.aercafrica.org)*

