



OCTOBER, 2020 ISSUE 1, NO. 4

AFRICA KNOWLEDGE IN TIME POLICY BRIEF

OFFICE OF THE CHIEF ECONOMIST, AFRICA REGION, WORLD BANK

COVID-19 AND DIGITAL FINANCIAL INCLUSION IN AFRICA

How to leverage digital technologies during the pandemic

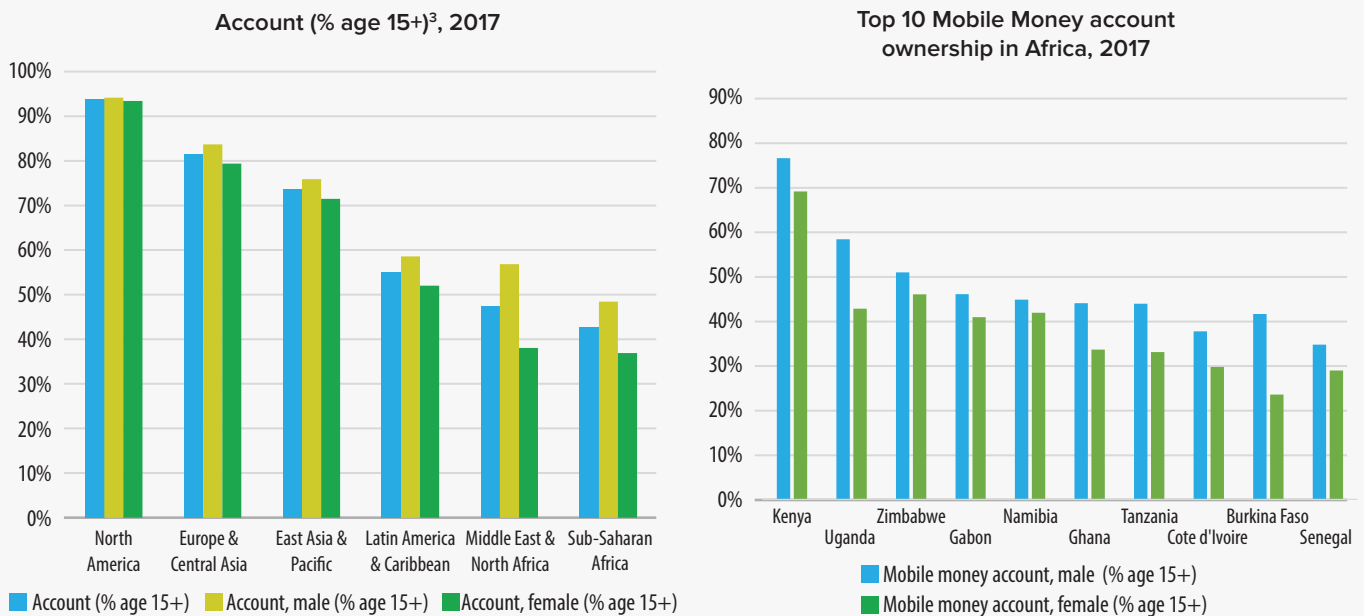
BY IMMACULATE NAFULA MACHASIO

The COVID-19 pandemic and resulting containment measures are likely to cause an economic contraction of about 2.8 percent in Sub-Saharan Africa (SSA) in 2020 according to the [Global Economic Prospects](#). Among the many adverse effects in the global economy, the crisis is posing a deep threat to financial inclusion¹ efforts globally. Lockdowns and curfews designed to curb the spread of the virus resulted in the closure of bank branches and halted operations of mobile money agents in compliance with restrictions. Government officials and health practitioners encouraged use of cashless and contactless modes of payment to reduce the risk of virus spread through handling of cash, thus creating new opportunities for potential adoption of Digital Financial Services (DFS). Small firms and low-income households can directly benefit from digital solu-

tions such as mobile money services, online banking and other financial technology innovations. Recent evidence suggests that digital financial inclusion could significantly contribute to economic growth, reduce poverty and narrow income inequalities without necessarily causing adverse effects on financial stability given the appropriate regulatory framework².

This Brief focuses on the impact of COVID-19 on financial inclusion and the potential of robust policy responses. The authors drew on the [Global Findex](#) database to showcase policy options that harness maximum benefits from digital technology, promoting financial inclusion and mitigating adverse impacts during the pandemic and beyond. The poor and vulnerable groups, such as women, the rural poor and youth, are

Figure 1: Financial accounts ownership in SSA



Acknowledgement: Immaculate Nafula Machasio is an Economist Consultant in the Jobs Global Practice of the World Bank Group

Objective and disclaimer: Africa Knowledge in Time Policy Briefs synthesize existing research and data on important questions and issues around the socioeconomic dimensions of Covid-19. Africa Knowledge in Time Policy Briefs carry the names of the authors and should be cited accordingly. The findings, interpretations, and conclusions are entirely those of the authors. They do not necessarily represent the views of the World Bank Group, its Executive Directors, or the governments they represent.

bearing the economic brunt of the socioeconomic consequences of the pandemic. Day laborers and those in the informal sector⁴ are also among the most affected categories of workers.

The COVID-19 crisis has underscored the urgent need for more robust financial inclusion strategies. Before the crisis, access to financial services was considered crucial in scaling up and leapfrogging global development processes to increase access to health, education, small business ventures and other services pertinent to lives, well-being and livelihoods. No more than ever, bank accounts and mobile money accounts could help families manage economic emergencies during the pandemic while reducing the risk of sliding into poverty. According to the World Bank’s Global Findex database, 43 percent of adults in Africa had an account in 2017 (Figure 1). However, gender disparity exists since data shows that only 37 percent of women own an account compared to account ownership by men (48 percent). This demonstrates the need to empower women and technology offers a pathway to accessing financial services by providing a mechanism through which households could save, borrow, make payments and manage risks using digital financial services.

M-Pesa, a mobile phone-based money transfer service launched in Kenya in 2007, is an emblematic success story, as it gave rise to wide acceptance of mobile mon-

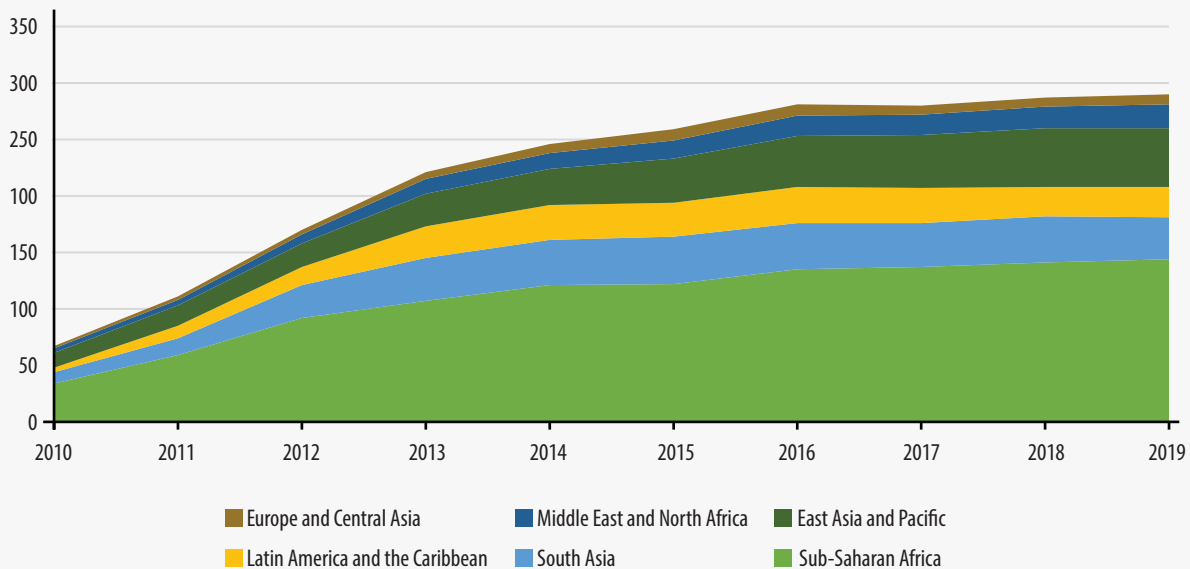
ey services within the Sub-Saharan Africa region. Now a common mode of payment for goods and services, wages, utilities and government cash transfers, mobile money services are robust contributors to financial inclusion. The region has emerged as the global leader in using mobile money accounts with a global share of approximately 46 percent of mobile money accounts worldwide (Figure 2a).

The World Bank’s 2017 Global Findex report also shows an increase in share of adults with access to accounts in financial institutions or mobile money accounts from 34 percent in 2011 to 43 percent in 2017. More interestingly, the percentage of adults with mobile money accounts nearly doubled between 2014 and 2017 from 12 percent to 21 percent. Most countries in the region have registered a higher share of mobile money accounts in comparison to conventional accounts in financial institutions (Figure 2b). Despite this progress, the region still lags behind and represents the world’s largest share of unbanked population coupled with a wide gender gap in terms of access to financial services.

Given the risk of transmission of COVID-19 through handling of cash calls for the digitization of payments. The shifting of payment from cash into accounts is likely to yield tremendous benefits in addition to expanding account ownership and increasing account usage. Digitalization also offers a secure form of payment and

Figure 2a: Worldwide distribution of mobile money services

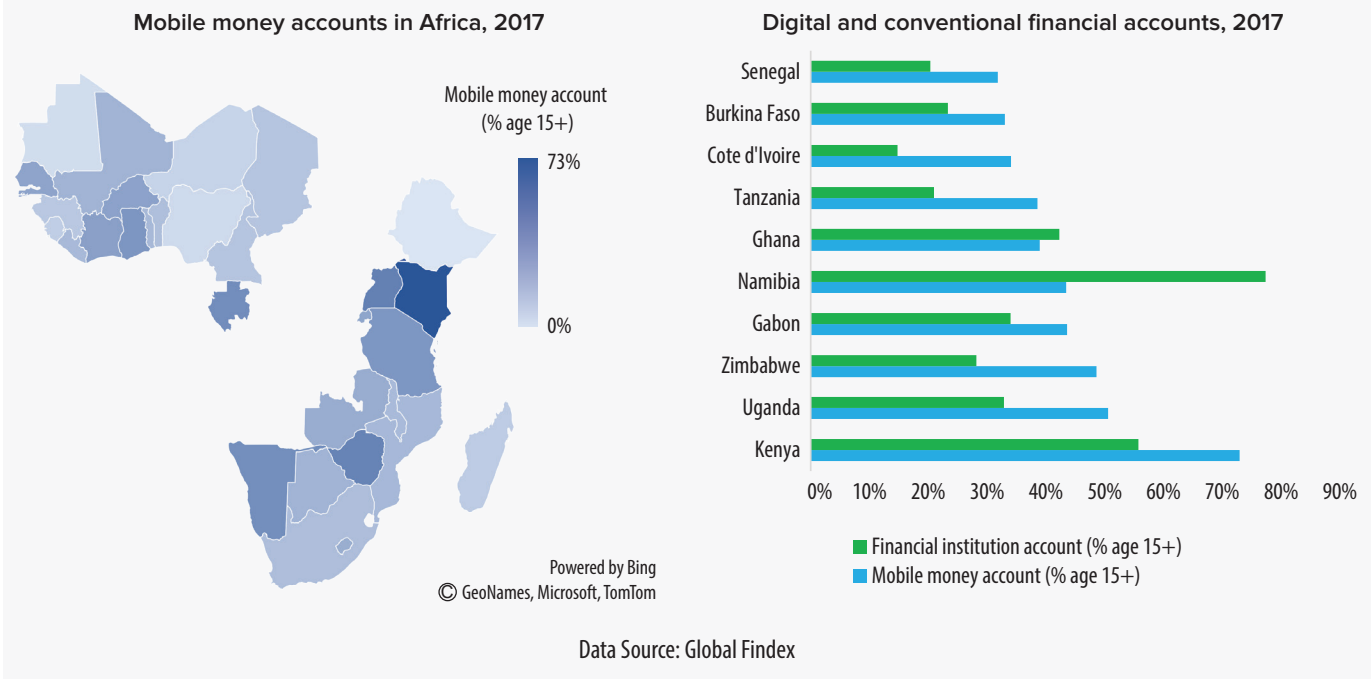
Regional availability of mobile money services, 2010-2019



Source: GSMA Intelligence

Notes: The graph shows that Africa has historically recorded the highest number of mobile money accounts and services in the World.

Figure 2b: Distribution of mobile money accounts in Africa



is associated with lower crime incidence⁵. Moreover, digital disbursement of payments is considered more transparent. The harnessing of maximum benefits from digital financial services would require the implementation of appropriate consumer protection regulations. Financial services should be tailored to the needs of vulnerable groups including first-time users, women and low-income communities.

Even though the process of financial inclusion begins with opening an account, benefits accrue to an individual when the account is put into use by making and receiving payments, saving and managing risk. Some of the modalities to increase account usage include formalization of savings and making use of mobile money payment platforms for retail transactions. Domestic remittances could also potentially increase account usage. Additionally, requiring banks to offer low-fee accounts and the introduction of a simplified systematic process (simplified due diligence) to verify customer identification requirements as well as introduction of electronic Know Your Customer (e-KYC) processes would form the basis of regulations that promote access to financial services.

Policy responses relevant to financial inclusion

Digitalization of banking services. Various monetary authorities and governments within the SSA region

have encouraged Financial Service Providers and bank customers to make use of digital payment platforms by utilizing online and mobile banking services as a measure to wean off person-to-person contact and as such mitigate the risk of transmission of COVID-19 infection through the handling of cash. For example, some banks have adopted virtual loan and mortgage requests and payments as well as digital onboarding for new account holders.

Expansionary monetary policy measures. In line with international practice, central banks in various countries within the region have embraced an expansionary monetary policy stance. For example, central banks in Ghana, Sierra Leone, Liberia, and the Gambia, among others, have reduced minimum reserve requirements and revised monetary policy rates in order to increase money supply in the economy.

Transaction fee waivers. Authorities in some African countries have called on banks and other financial institutions to waive or reduce fees and increase daily transaction limits associated with electronic financial services. Some government authorities have lowered fees associated with digital transactions and increased mobile money transaction limits (e.g., Kenya, Ghana, and Liberia) in order to accelerate DFS. Reliance on digital solutions could facilitate speedy and secure deployment of targeted fiscal measures to intended beneficiaries up to and including the unbanked as evidenced in countries such as Uganda, Namibia and



Photo: Arne Hoel / The World Bank

Zambia where mobile money networks are used to effect government transfers and make up for limited banking networks.

Debt moratoriums and loan restructuring. Financial Service Providers in the region have been urged to restructure the initial terms of loan repayment and adopt debt moratoriums in order to support individuals and firms that are struggling financially to cope with the economic downturn.

Cash transfer programs. A few governments offered cash transfer programs as a mechanism to assist vulnerable households and SMEs navigate the financial hardships occasioned by lockdown measures. Togo is one of the countries in Africa which made use of mobile-based cash transfer services⁶.

Leveraging digital technology in SSA to cope with COVID-19 shocks

Global Findex data found that about 1.1 billion adults are unbanked globally. Yet about two thirds of those without an account have a mobile phone. This implies that there is great potential for unbanked households to leapfrog directly to embrace mobile payments and the benefits of financial services. Yet the gender gap in Sub-Saharan Africa should be taken into account since

fewer unbanked women own mobile phones than men (54% men, 43% women).

Moving forward, the main consideration to boost financial inclusion in light of the pandemic entails accelerating access to digital technology⁷ and the improvement of existing mechanisms. Mobile money services such as M-Pesa, MTN Mobile Money in Ghana or Zambia's Zoono can fast track the process of financial inclusion with more agility than conventional banking methods. Digitalization could enhance productivity and improve access to finance and markets for SMEs.

Adoption of electronic Know Your Customer (eKYC) process would play a critical role to facilitate access to banking and financial services by individuals and SMEs. Since identification documents are necessary to join the financial mainstream, there is an urgent need to capitalize on digital identity to eliminate barriers associated with accessing financial services while adhering to Anti-Money Laundering and Countering Financing for Terrorism (AML/CFT) regulations.

Enhancing formalization of services by promoting use of mobile saving platforms such as digital wallets and other digitalization services could also support inclusion. Governments offering social assistance in the form of cash transfers could incorporate digital social payments and as such encourage small businesses to



Photo: Vincent Tremeau / The World Bank

make use of digital services. Governments in SSA also need to invest in digital infrastructure with more focus on financial inclusion expansion channels in rural and marginalized areas.

Enhancement of digital financial literacy to encourage adoption of digital financial services and mobile services should involve all media platforms to promote digital financial education, more especially to the elderly and less educated members of the society. Accessible videos and podcasts could help prepare them to face economic challenges imposed by the crisis as well as facilitate recovery after the pandemic.

Inclusion of gender perspective when designing financial support policies is paramount since women are likely to be disproportionately affected by the crisis. Even before the COVID-19 pandemic, women labor force participation was very low⁸, therefore lending mechanisms geared toward preferential consideration of businesses owned by women for credit access would be beneficial.

Conclusion

There is immense need to implement timely policy responses in SSA to attenuate the impact of the COVID-19 crisis. The pandemic has also presented opportunities which could be seized to drive forward financial inclu-

sion initiatives using digital platforms. African countries with underdeveloped Digital Financial Services could possibly pull resources together and introduce adaptive financial regulations since so far, development partners and central banks have been at the forefront in formulating and implementing strategies to support financial inclusion. There is great potential for leveraging the scale of mobile phone ownership and internet access to create technological innovations in the financial sector.

It is crucial to ensure that the strategies are inclusive so that digitally constrained individuals are also fully able to participate in the initiatives. Measures to curtail fraud should also be put in place to ensure consumer protection. The crisis has created opportunities that can be tapped to leverage mobile-based technology financial solutions catering to the unbanked segment of the population.

Finally, there is even greater need to provide liquidity support to mobile agents and SMEs to facilitate continued operations during the crisis. Strategies such as reduced cost of microcredits, flexible loan repayments terms and transaction fees waivers would prop up SMEs and mobile agents.

References

- Ayadi, R., & Mouelhi, R. (2018). FEMALE LABOUR FORCE PARTICIPATION AND ENTREPRENEURSHIP.
- Ayadi, R., & Shaban, M. (2020). DIGITAL FINANCIAL INCLUSION: A PILLAR OF RESILIENCE AMIDST COVID-19.
- Čihák, M., & Sahay, R. (2020). Finance and Inequality. IMF Staff Discussion Notes, 20(01).
- Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2020). The Global Findex Database 2017: Measuring Financial Inclusion and Opportunities to Expand Access to and Use of Financial Services. The World Bank Economic Review, 34(Supplement_1), S2-S8.
- GSMA Intelligence, accessed on Sept 22, 2020, <https://www.gsma.com/mobilemoneymetrics/#global?y=2019?v=availability?g=global>
- Medina, L., Jonelis, M. A. W., & Cangul, M. (2017). The informal economy in Sub-Saharan Africa: Size and determinants. International Monetary Fund.
- Sahay, R., von Allmen, U. E., Lahreche, A., Khera, P., Ogawa, S., Bazarbash, M., & Beaton, K. (2020). The Promise of Fintech; Financial Inclusion in the Post COVID-19 Era (No. 20/09). International Monetary Fund.
- “Policy Responses to COVID-19” IMF, accessed on Sept 3, 2020, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>
- Prospects, G. E. (2020). June 2020. World Bank Group, Washington DC.
- Verick, S. (2014). Female labor force participation in developing countries. IZA World of Labor.
- World Development Indicators. Washington, D.C. :The World Bank.
- Wright, R., Tekin, E., Topalli, V., McClellan, C., Dickinson, T., & Rosenfeld, R. (2017). Less cash, less crime: Evidence from the electronic benefit transfer program. The Journal of Law and Economics, 60(2), 361-383.

Notes

¹ The Bank of International Settlements defines financial inclusion as the process of ensuring access to appropriate financial products and services needed by all members of the society in general and vulnerable groups in particular, at an affordable cost and in a fair and transparent manner by mainstream institutional players.

² Čihák and Sahay 2020

³ The percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of financial institution (see definition for financial institution account)

⁴ IMF 2017. Informal sector accounts for 40% of GDP in Africa

⁵ Wright et al., 2017

⁶ Cape Verde, Ghana and Nigeria effected the cash-based transfers

⁷ Mobile phones and business process digitalization for customers and SMEs

⁸ Verick, S. 2014



Photo: Arne Hoel / World Bank