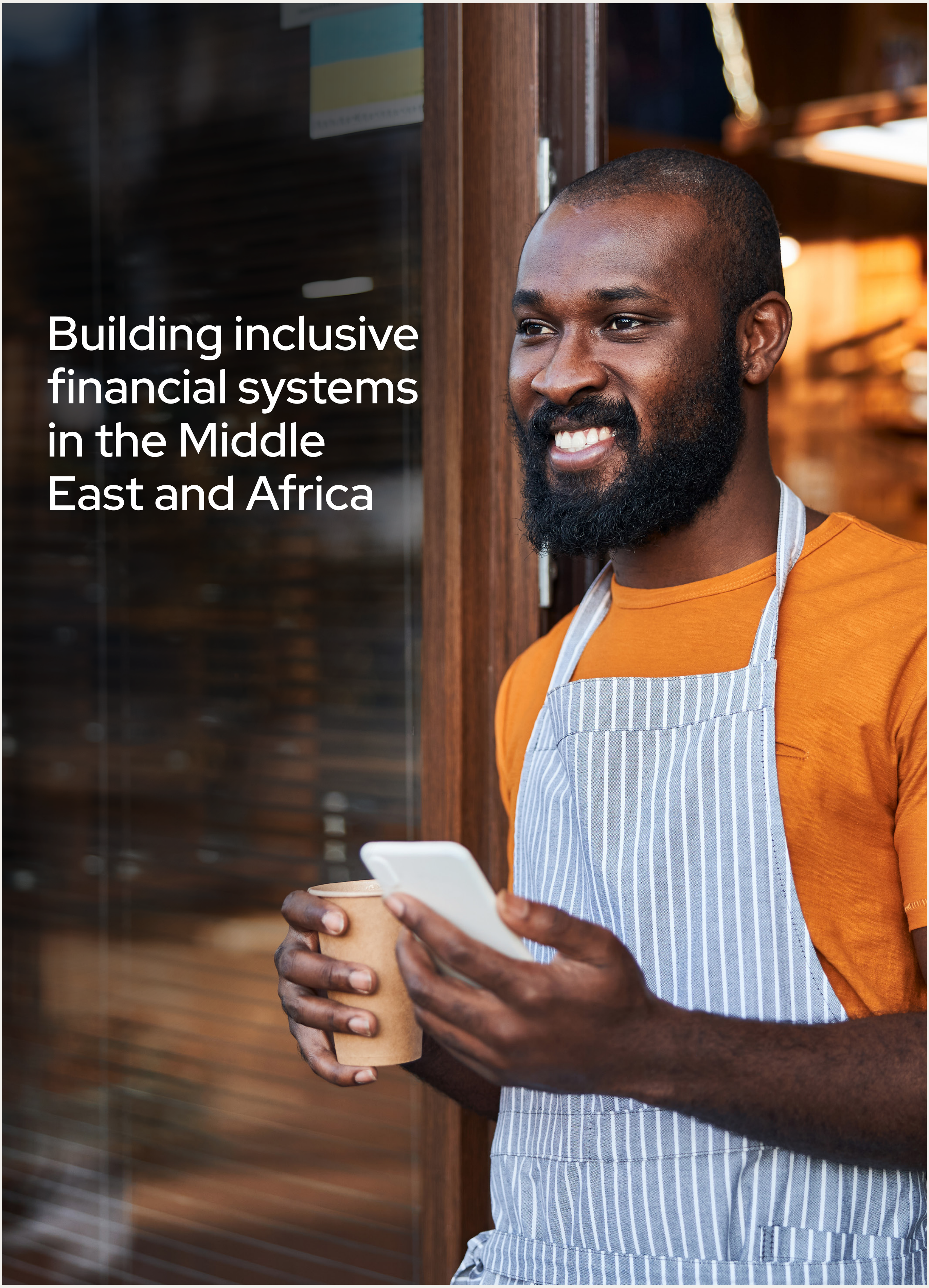

Building inclusive financial systems in the Middle East and Africa

Policy Center for the Digital Economy

OMFIF

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Official Monetary and Financial Institutions Forum

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ABOUT THE DIGITAL MONETARY INSTITUTE

With a presence in London, Washington and New York, the OMFIF Digital Monetary Institute is a neutral platform where the public and private sectors meet to shape the future of finance.

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ABOUT THE MASTERCARD POLICY CENTER FOR THE DIGITAL ECONOMY

Mastercard Policy Center for the Digital Economy (PCDE) is part of Mastercard, a global technology company in the payments industry with connections across more than 2010 countries and territories. The Policy Center serves as a global forum and resource to create the ideas, insights, and inspiration that drive decision-making on the critical economic and policy issues that shape the digital economy. The Center's mission is to engage a wide array of stakeholders with diverse and informed perspectives to the topics and issues that will define the digital economy.

ACKNOWLEDGMENTS

As part of the project, OMFIF, in partnership with Mastercard, held two discussions, encouraging stakeholders to share views on evolving payments and necessary policy considerations for advancing financial inclusion in the Middle East and Africa. The first was a virtual roundtable in August 2023, followed by an in-person seminar held in Marrakech at the sidelines of the International Monetary Fund and World Bank annual meetings in October 2023.

Fostering financial inclusion through payments in the Middle East and Africa, Virtual roundtable

Hakima El Alami, Director of Payment Systems and Instruments Oversight and Financial Inclusion, Bank Al-Maghrib

Mohamed Benomar, Country General Manager MENA West (North West and French sub-Saharan Africa), Mastercard

Dorothee Delort, Senior Financial Sector Specialist, World Bank

Mohamed Helmy, Head of Payment Systems General Department, Central Bank of Egypt

Paul Oluikpe, Head of Financial Inclusion Delivery Unit, Central Bank of Nigeria

Payment innovation and secure digital infrastructure in the Middle East and Africa, In-person seminar in Marrakech

Jameel Ahmad, Governor, State Bank of Pakistan

Michael Atingi-Ego, Deputy Governor, Bank of Uganda

Khalid Elgibali, Division President, Middle East and North Africa, Mastercard

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CONTENTS

Balancing regulation, innovation and collaboration

A digitally-led financial system must make financial services available to all, while ensuring stability, trust and interoperability.

FINANCIAL inclusion is one of the key development priorities in the Middle East and Africa. There has been significant progress in this area over the past decade. Efforts include introducing mobile trading platforms, educational campaigns, as well as leveraging technological developments to accelerate financial inclusion.

OMFIF, in partnership with Mastercard, seeks to foster public-private sector dialogue on inclusive national payment systems, ensuring that financial inclusion is at the core of the future of economies. The project continues the conversation from the 'Shared principles for an inclusive financial system' outlined in a 2021 World Economic Forum white paper by examining the extent to which initiatives to bolster financial inclusion in the Middle East and Africa align with these principles.

This report delves into findings from a survey of nine public sector institutions in the region as well as insights derived from two roundtable discussions hosted by OMFIF and Mastercard. The first in August 2023 was a virtual discussion on 'Fostering financial inclusion through payments in the Middle East and Africa' with representatives from Bank al-Maghrib, Central Bank of Egypt, Central Bank of Nigeria, Mastercard and the World Bank. The second event in October 2023, 'Payment innovation and secure digital infrastructure in the Middle East and Africa', was an in-person seminar on the sidelines of the International Monetary Fund and World Bank meetings in Marrakech.

This report also highlights the gaps and challenges that remain in the path to a more inclusive financial system. Less than 50% of survey respondents said they were 'satisfied' with the levels of financial inclusion in their jurisdiction, suggesting there is plenty of scope for further progress. Policy-makers and stakeholders worldwide are taking concerted steps to embrace the opportunities presented by the digital transformation. The ultimate goal is to make financial services accessible to all, while ensuring stability, trust and sustainability in these rapidly evolving ecosystems. The main findings from the project can be classified into the following three themes.

Digitally led approach: Digitalisation is at the forefront of financial inclusion efforts in the Middle East and Africa. The survey findings show that 89% of the respondents saw 'digitally led' as the principle most aligned with their financial inclusion strategies. Access to digital payments can be further improved but it is also important to bolster demand, not just supply. Various initiatives, such as training programmes and awareness campaigns, were introduced to this end. However, to address persistent challenges of low levels of literacy and lack of trust, the focus should shift to demonstrating the value added from digital services. There should be an emphasis on the benefits and convenience of transitioning away from cash-based transactions, such as the integration of savings products and the disbursement of pension and other social security payments through digital payments infrastructure.

Balancing regulation and innovation: The second most aligned principle with current financial inclusion initiatives in the region is effective regulation. This was chosen by 78% of survey respondents, partly as a means of combatting cybersecurity threats that emerge from becoming more digital and partly for enhancing consumer protection frameworks. Policy-makers are also striving to strike a balance between mitigating risks and enhancing innovation. To ensure the economic sustainability of the payments system, 89% of respondents currently undertake initiatives to encourage competition for market entry, technological advancements and innovative business models to reduce the cost of financial services.

Stakeholder collaboration: An integrated and interoperable financial system is critical to a 'systems approach' to advancing financial inclusion. But challenges related to infrastructure, access and costs in the region persist. A balance of effective regulation and stakeholder collaboration is key in ensuring existing financial services are interoperable. While new technologies can support financial inclusion efforts by providing enhanced access and security, it is important to ensure these can be seamlessly integrated into existing financial systems through partnerships between the public and private sector. •

50%

Less than 50% of survey respondents said they were 'satisfied' with the levels of financial inclusion in their jurisdictions.

Making strides towards digital financial inclusion

The digitalisation of financial services is gaining traction in the Middle East and Africa.

THERE has been notable progress in improving access to financial services in households and firms in the Middle East and Africa. According to the World Bank Global Findex report from 2021, there was a significant uptick in digital payment usage, with 50% of individuals aged 15 and above having either made or received a digital payment in sub-Saharan Africa and 45% in the Middle East and North Africa. These statistics mark a substantial increase from the 2017 figures of 37% and 34%, respectively (Figure 1). Despite this growth, it is worth noting that these percentages still lag the global average of 64%, demonstrating there is scope to expand access and usage of digital financial services in these regions.

Policy-makers are committed to addressing the issue. This report features insights from nine central banks and financial regulators, obtained through a survey and two roundtable discussions on the topic, which highlighted a wide range of initiatives underway to enhance financial inclusion. This includes financial literacy campaigns, developing national infrastructure and promoting regulations for digital payments. There is plenty of work to be done. Less than 50% of the survey respondents said they were 'satisfied' with the levels of financial inclusion in their jurisdictions.

This report also builds on a framework developed by the World Economic Forum to assess the current policies, barriers and potential solutions to bolster financial inclusion in the Middle East and Africa. The World Economic Forum white paper, in partnership with Mastercard, outlined shared principles for an inclusive financial system. The paper proposes seven principles that encourage a systems approach to financial inclusion involving all stakeholders, including policy-makers, regulators, technology providers, mobile money providers, fintech institutions and international and national non-governmental organisations (Figure 2). These seven principles guide the analysis of this report.

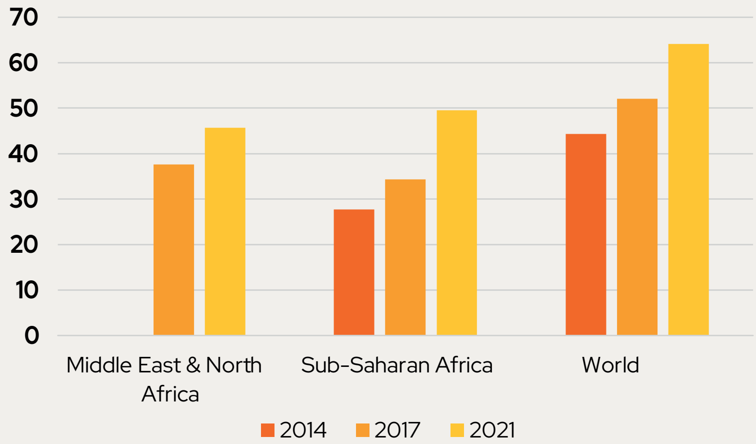
The report is divided into three main chapters. In chapter 1, we explore the current priorities of policy-makers and financial institutions, and initiatives that are in place to bolster levels of financial inclusion in their jurisdictions.

In chapter 2, we look at areas where progress is lacking and the barriers that hinder progress towards goals related to financial inclusion.

In chapter 3, we outline potential next steps that can support efforts of various stakeholders on the path towards more inclusive financial systems. •

Figure 1. Digital payments are becoming more mainstream

Made or received a digital payment, % of population, above age of 15



Source: Global Findex Data 2014-21

Note: There are no data available from 2014 for Middle East and North Africa at the regional level.

Figure 2. Shared principles for an inclusive financial system

Principle	Definition
Inclusive by design	Reaching the maximum number of people and businesses with mainstream financial services and supporting specialised financial services to include the rest.
Integrated system	Providing the user with an integrated financial services experience through open standards and market-driven interoperability.
Digitally-led	Expanding digital access as a leading channel for the delivery of financial services while maintaining robust physical access channels.
Economically sustainable and commercially viable	Balancing cost, affordability and quality, and enabling inclusion as a commercial strategy beyond philanthropy.
Informed by data	Creating relevant financial solutions and maintaining security by using data responsibly.
Trusted	Deepening trust in financial services through technology, transparency and consumer protection.
Effectively regulated	Enabling innovation and competition while maintaining stability, integrity and consumer protection.

Source: World Economic Forum 2021

Progress towards an inclusive financial system

Initiatives and campaigns have been launched across Africa and the Middle East to address and align with shared principles for an inclusive financial system.

Key findings

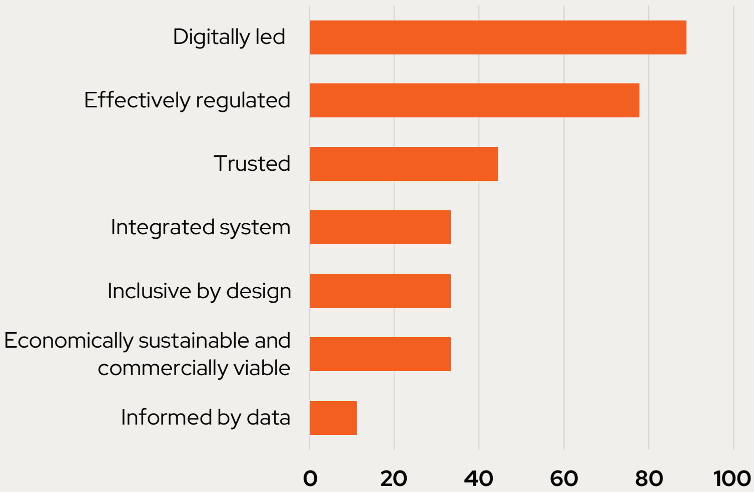
1. Policy-makers are prioritising digital approaches for financial inclusion as 89% of them have financial inclusion strategies aligned with the 'digitally-led' principle.
2. Effective regulation is key for stability and innovation, particularly in addressing cybersecurity threats as 78% of survey respondents prioritise the area in their strategies.
3. Efforts to deepen trust centre around enforcing protection and improving financial literacy through campaigns, but there is still more scope for improvement.

THIS section provides an overview of the initiatives and progress towards building an inclusive financial system. It looks at how policy-makers in the regions prioritise the various principles outlined in the World Economic Forum white paper, and to what extent their initiatives align with the action areas.

When asked which of the seven principles best aligned with their national financial inclusion strategies, the factor that resonated the most with survey respondents was 'digitally led' with all but one respondent selecting that option (see Figure 1.1). This involves 'expanding digital access as a leading channel for the delivery of financial services while maintaining robust physical access channels'. The second most common principle, with 78% choosing it, was 'effectively regulated'. All other principles were selected by less than 50% of respondents.

Figure 1.1. Digitally led financial inclusion strategies are most popular

Which three principles are most aligned with your current financial inclusion strategy? Share of respondents, %



Source: OMFIF and Mastercard financial inclusion survey 2023

Digitally led financial inclusion

Over the past few years, there has been a substantial increase in the adoption of digital financial services in the world. As Jean Pesme, global director of finance, competitiveness and innovation at the World Bank declared, 'digital has changed the game.' Various central banks have initiatives that prioritise improved access to, and uses of, digital financial services. For instance, the Central Bank of Nigeria's Payments System Vision 2025 strategy, released in late 2022, highlights initiatives to support digital innovations and payments in the future. These include contactless payments, big data and open banking. In South Africa, the South African Reserve Bank worked collaboratively with the industry to launch PayShap, a retail payments modernisation initiative, which was introduced to deepen digital financial inclusion by 'making digital payments more convenient and reducing the reliance of cash in the economy'.

Bank al-Maghrib, Bank of Namibia, Bank of Uganda, Central Bank of Egypt and Reserve Bank of Malawi also have financial inclusion strategies that promote efficient digital payments to reach the most under-served and vulnerable populations, especially in rural areas. Michael Atingi-Ego, deputy governor of the Bank of Uganda, emphasised that digital technology can solve the issue of accessing the unbanked population, noting that lack of access is largely due to the absence of brick-and-mortar banks. Paul Oluikpe, head of financial inclusion delivery unit at Central Bank of Nigeria, also noted that most of the population in Nigeria lives in rural areas where modern infrastructure can be porous. However, because 'mobile phone access is ubiquitous', it can therefore be used to extend financial services to all demographics.

There are wide-ranging and far-reaching benefits of digital financial inclusion initiatives. However, challenges related to citizens' digital financial literacy and lack of trust impede progress in this area.

Effectively regulated financial systems

Policy-makers also prioritise having effectively regulated financial inclusion strategies, with 78% of survey respondents selecting it as one of →

89%

of respondents are implementing consumer protection frameworks that emphasise transparency and safeguarding privacy and data security.

the top three principles aligned with their national strategies. This reflects the need for regulations to adapt to the evolving landscape of financial systems, as the principle focuses on enabling innovation and competition while maintaining stability, integrity and consumer protection.

Participants at the seminar in Marrakech agreed that a strong regulatory framework is essential to protect consumers, especially the most vulnerable, who may be unaware of the risks associated with new payment systems. To allow for this balance, the Central Bank of Egypt introduced measures for digital financial systems during the Covid-19 pandemic. These included removing monthly balance limits for mobile wallet accounts, simplifying procedures for opening these accounts and waiving fees related to setup, commissions, transfers and withdrawals. Similarly, the SARB's efforts to develop a cyber-resilience regulatory framework are indicative of the need to safeguard against cyber threats in an increasingly digital financial landscape.

In addition to cybersecurity, a solid legal and regulatory framework is imperative. Mohamed Helmy, head of payment systems, general department at the Central Bank of Egypt, noted that there is a need to ensure cybersecurity risks are addressed through the right infrastructure and a robust legal and regulatory framework. This infrastructure must support technological advancements and ensure trust between financial institutions and consumers, all while providing mechanisms for dispute resolution and issue escalation.

An effectively regulated financial system is crucial to improving financial inclusion, especially in the digital age. It is also important to ensure that regulations evolve in tandem with technological advancements to avoid potential overregulation that will hamper innovation. It should be noted that the measures introduced in Egypt were a response to specific pandemic-related risks. Despite their short-term effectiveness, amending economic regulations alone is not a sustainable approach to promote inclusion. Regulations should be put in place to manage risk-based approaches to market ecosystems and should be proportionate to the risk. Encouraging market-driven outcomes can allow for more innovative approaches to address financial inclusion-related issues.

Deepening trust

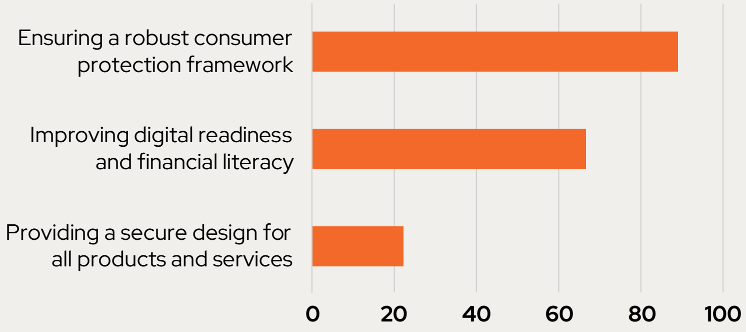
In the era of standardised digital financial services, having a trusted financial system and deepening trust in financial services through technology, transparency and consumer protection is essential. 'Building trust in digital payments is crucial in today's interconnected world,' noted Khalid Elgibali, division president, Middle East and North Africa at Mastercard. He added, 'it is important to address the perceived trust issue in digital by implementing the right security measures, tools and solutions, and it is equally important to showcase the benefits and value-add digital brings to positively impact consumer habits'.

A little under half of the survey respondents noted that this principle is aligned with their financial inclusion strategies. However, our findings suggest that policy-makers are taking steps to deepen trust through two main areas: enforcing a consumer protection framework and improving levels of digital readiness and financial literacy (Figure 1.2). Survey respondents are placing less of an emphasis on ensuring trust through the design of products and services, which can be concerning as policy-makers might rely too heavily on citizens' behaviours and regulation to deepen trust in financial services.

One of the critical strategies employed to deepen trust is financial literacy campaigns. All surveyed respondents and central banks have

Figure 1.2. Policy-makers are developing robust consumer protection frameworks

Which of the following areas have been implemented to deepen trust in financial services? Share of respondents, %



Source: OMFIF and Mastercard financial inclusion survey 2023

67%

of respondents have initiatives dedicated to improving digital readiness and financial literacy.

developed and executed campaigns to promote financial awareness. Of those, 67% stated that they have initiatives dedicated to improving digital readiness and financial literacy (Figure 1.2), ensuring that consumers and merchants are well-informed and confident in navigating the digital financial landscape.

For instance, Bank al-Maghrib has deployed toolkits and awareness campaigns, while Uganda introduced a digital financial literacy toolkit to enhance financial inclusion. The State Bank of Pakistan initiated a national payment system strategy in 2019, leading to a significant increase in the number of account holders, demonstrating the impact of financial literacy campaigns. Similarly, Bank of Uganda is collaborating with national and international partners to create digital financial literacy materials and toolkits.

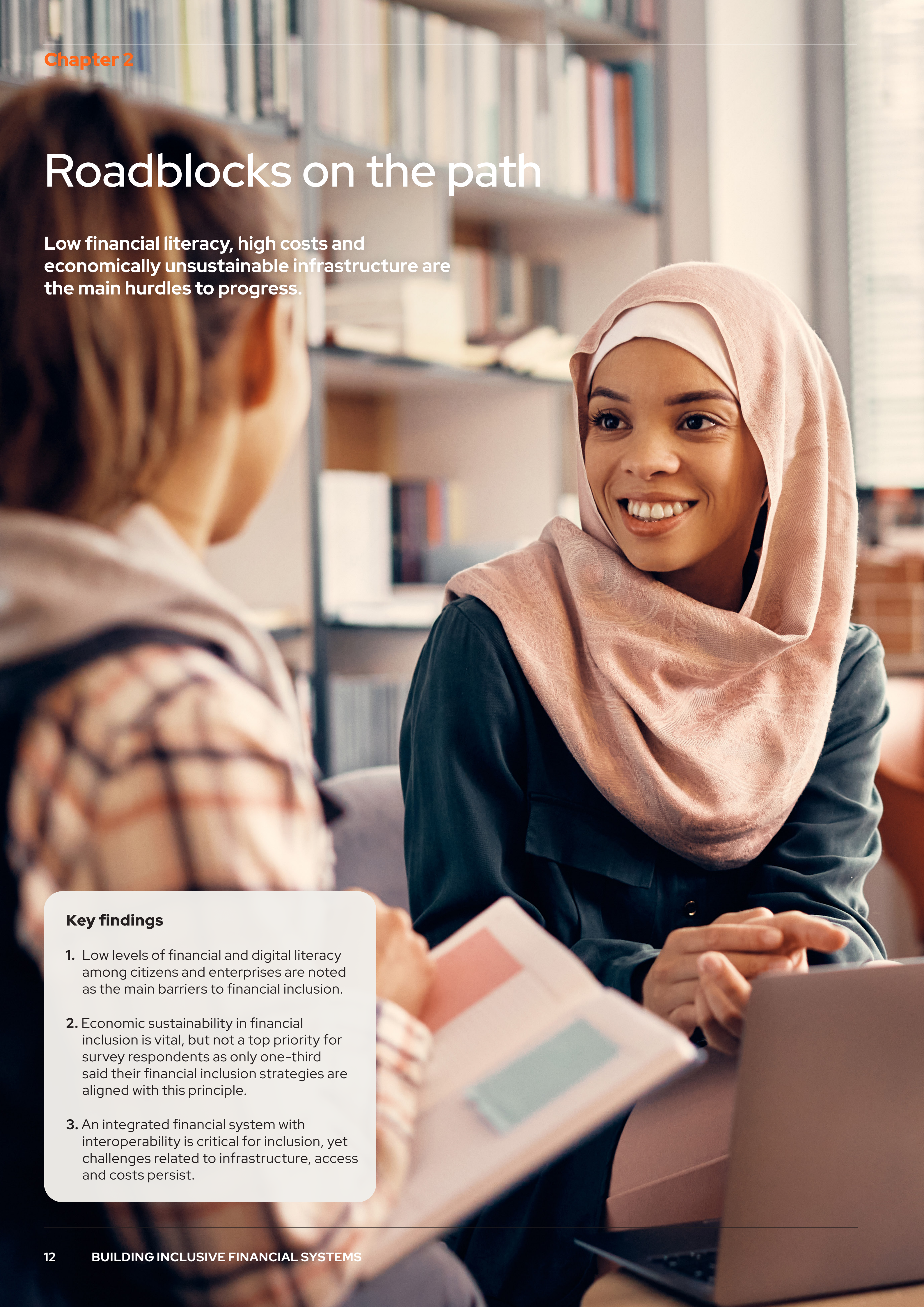
As digital financial payments gain momentum, ensuring trust in financial services is paramount. Policy-makers are addressing cybersecurity risks through robust regulation and secure infrastructure. Survey findings reveal that 89% of respondents are actively implementing consumer protection frameworks that emphasise transparency and safeguarding privacy and data security (Figure 1.2).

'Building trust in digital payments is crucial in today's interconnected world.'

Khalid Elgibali, division president, Middle East and North Africa, Mastercard

Several examples from different regions showcase the commitment to building trust, including Banky Foiben'i Madagaskira strengthening its consumer protection framework to focus on information transparency. The Central Bank of Egypt also issued additional regulations to strengthen the existing system to protect consumers and prevent discrimination. These initiatives collectively work to enhance trust in financial services and promote financial inclusion in an increasingly digital world.

Despite this, survey respondents and roundtable participants have identified specific areas that require further attention and development. The principles of integrated systems and sustainability and commercial viability were highlighted as domains where gaps exist, indicating a need for additional efforts and progress. •



Roadblocks on the path

Low financial literacy, high costs and economically unsustainable infrastructure are the main hurdles to progress.

Key findings

1. Low levels of financial and digital literacy among citizens and enterprises are noted as the main barriers to financial inclusion.
2. Economic sustainability in financial inclusion is vital, but not a top priority for survey respondents as only one-third said their financial inclusion strategies are aligned with this principle.
3. An integrated financial system with interoperability is critical for inclusion, yet challenges related to infrastructure, access and costs persist.

DESPITE notable advancements in the region's pursuit of more inclusive financial systems, barriers persist in the Middle East and Africa. The most pressing among these is the issue of low financial and digital literacy levels. Other challenges broadly fall under the principles of economically sustainable and commercially viable systems and integrated systems. This report chapter delves into these areas where progress is lacking and where progress is hindered towards the goals of financial inclusion.

Digital financial literacy

In the digital age, financial literacy is more crucial than ever. Survey respondents noted low financial and digital literacy as the most common barrier to financial inclusion. This issue transcends financial service providers, extending to citizens as well as small-, medium- and micro-sized enterprises. Participants at the roundtable, who were convened to discuss payment innovation and secure digital infrastructure in the Middle East and Africa, also noted that consumers should be equipped with the knowledge and skills to navigate digital payment platforms and protect themselves from emerging threats.

Yet, an issue closely related to low digital literacy is the reluctance of people to keep their finances within the digital ecosystem. In their pursuit of fostering innovation and productivity, central banks are keen to encourage individuals to maintain their funds digitally rather than 'cashing out'. This digital ecosystem can facilitate access to microcredit and various financial services, ultimately benefitting both the individual and the broader economy.

Low literacy and unfamiliarity with formal financial services are key obstacles that deter individuals from embracing the formal financial system. The fear of becoming financially included – driven by concerns about tax authorities and visibility – complicates matters further. Trust issues contribute to this reluctance to engage with the formal financial system.

To address these challenges, central bank representatives have emphasised the importance of having suitable infrastructure for the payments system and a robust legal framework that instils trust among both the supply side (banks, payment providers) and the demand side (consumers and merchants). Potential next steps to address these challenges are discussed in more detail in the next chapter.

Economically sustainable and commercially viable

Ensuring economic sustainability is a matter of striking a 'balance between cost, affordability and quality, all while promoting inclusion as a commercial strategy beyond philanthropy'. This entails a concerted effort to achieve commercial viability and economic sustainability by harmonising the requirements, capacities and advantages of value creation among all participants in the financial ecosystem.

However, only one-third of survey respondents chose 'economically sustainable and commercially viable' as one of their top three principles aligned to national financial inclusion strategies, suggesting other principles take precedence (Figure 1.1). The concern remains that if the infrastructure is not economically sustainable, end consumers risk bearing the financial burden of the linked inefficiencies. The lack of sustainable infrastructure could also hinder innovation and competition, thus negating efforts to reduce costs of and increase access to services to boost levels of financial inclusion.

While there is a distinct emphasis on fostering competition and mitigating cybersecurity threats – two of the action areas under this principle – there is still room for further advancement. Initiatives primarily focus on 'encouraging →

'Interoperability is paramount in our mind, especially where we see fast payment systems can accelerate financial inclusion.'

Dorothee Delort, senior financial inclusion specialist, World Bank

competition for market entry, technological advancements and innovative business models to reduce the cost of financial services,' with 89% of respondents confirming that they have taken measures in this direction.

The Central Bank of Egypt and the Financial Regulatory Authority are at the forefront of these regulatory changes. Their Digital Solutions Matchmaking Programme actively supports fintech solutions, providing vital guidance, especially for the unbanked and underbanked. These initiatives stress the commitment to allowing for commercially viable products and building a digitally inclusive economy.

Moreover, 67% of respondents have also taken steps to fortify the system against cybersecurity threats in pursuit of an economically sustainable financial ecosystem. While central banks and policy-makers have enacted measures to address these threats and educate citizens about them, the lack of trust stemming from cybersecurity concerns is a significant barrier to financial inclusion, as noted by many survey respondents.

To foster commercial viability, competition and innovation within financial ecosystems, participants at the seminar emphasised the need to strike a balance between risk management and competition enhancement. A senior central bank official underscored the need for a ‘two-pronged approach, focusing on policy and innovation’ to tackle challenges related to financial inclusion. This was further substantiated by survey findings, which highlighted that low levels of innovation and subsequent product scarcity are barriers to improving levels of financial inclusion, especially in rural and remote areas.

Interoperability and integrated systems

An integrated financial system, characterised by a unified financial services experience through open standards and market-driven interoperability, is crucial for promoting financial inclusion. Interoperability, marked by open industry standards and effective governance, serves as a linchpin in this pursuit.

Creating an environment where financial services providers can seamlessly collaborate and connect allows customers to access their accounts and perform transactions across different platforms and institutions. This was emphasised by Dorothee Delort, senior financial

inclusion specialist at the World Bank, who noted that, 'interoperability is paramount in our mind, especially where we see fast payment systems can accelerate financial inclusion'.

Survey data reflect the importance placed on interoperability by financial authorities and policy-makers. The vast majority (89%) of respondents concur that the most relevant action area for advancing financial inclusion is 'creating an enabling environment for market-driven interoperability across financial services providers, based on open industry standards and effective governance'.

For example, EBC, the national payments network in Egypt, and domestic scheme operator MEEZA, have enabled full interoperability across payment service providers and all-access channels. In Malawi, the integration of mobile network operators into the payment ecosystem has facilitated fund transfers across various payment platforms.

South Africa's Vision 2025 framework, initiated by the SARB, outlines collaboration goals among national industry stakeholders, contributing to greater interoperability. The strategy's overarching aim is to 'enhance the safety, efficiency and accessibility of the national payment system' while promoting competition and minimising risks.

The focus on interoperability comes with an increased focus on standardisation and harmonisation between payment systems, ensuring technical compatibility between them and also having interoperable regulatory frameworks. However, while steps have been taken, there is a recognition that this approach has not been scaled up to the extent required to advance financial inclusion comprehensively.

Survey respondents highlighted significant barriers in this regard. These include the need for more non-financial services providers, the necessity for additional digital channels offering financial services and concerns related to infrastructure and interoperability, which are still lacking, especially in under-served regions.

Additionally, there remains further scope for improvement in countries with respect to the integration of non-traditional financial services providers, with 67% of survey respondents mentioning they have initiatives to do so. In countries where there are difficulties in accessing formal financial services and high costs of services, the integration of non-traditional providers in the formal system can have a significant impact on cost and availability of services to boost financial inclusion (see chapter 3 for more details).

Promoting financial inclusion through an integrated financial system with open standards and market-driven interoperability is a multifaceted endeavour. By fostering seamless collaboration among financial services providers, improving access and addressing the barriers to interoperability – such as differences in technical standards between providers and regulations and lack of competition – we can enhance financial inclusion on a global scale. This approach holds the potential to create more accessible and efficient financial ecosystems, particularly for those who are currently under-served and excluded. •

The road ahead and next steps

Collaboration between the public and private sector is crucial to meeting the needs of the unbanked and under-served.

Key findings

1. Emphasising the value of digital payments beyond a substitute for cash is essential for a form of financial inclusion that encompasses trust, convenience and broader application.
2. Leveraging technology, such as mobile payments and digital identification systems, can support financial inclusion efforts, providing access and security.
3. A comprehensive approach to financial inclusion requires co-operation among central banks, private sector players and international partners, tailoring solutions to meet diverse needs, in diverse contexts.

LOOKING ahead, the Middle East and Africa stand at the intersection of financial system transformation. Significant progress has already been made in these areas, bringing more of the population into the formal financial system, but gaps persist. This section explores potential next steps that can support the efforts of various stakeholders on the path towards more inclusive financial systems.

Demonstrating value of digital services

In tandem with addressing levels of digital literacy through awareness campaigns, there has to be a concerted effort to demonstrate the added value proposition of digital payments to individuals and businesses to transition away from traditional cash-based transactions. Mohamed Benomar from Mastercard highlighted that it is also essential to raise awareness on the 'value proposition of a digital world', where 'private and public sectors have to collaborate to educate and clearly articulate the benefits and opportunities that an inclusive digital economy can unlock for all'.

Demonstrating the value of digital financial services involves going beyond mere parity with cash transactions. It necessitates the creation of digital processes that are not just as trustworthy and secure as cash but notably faster and more convenient. It should be considered a baseline to establish trust and ensure consumer protection. The key lies in crafting a digital experience that surpasses cash transactions in these aspects. Moreover, the strategy to promote financial inclusion does not end at demonstrating value, it extends to changing and broadening the uses of digital services. A seminar participant highlighted that, 'it is important to consider economic inclusion, not just financial. For instance, through micro pensions, microcredit, electronic government payments'.

Countries like South Africa boast of relatively high levels of financial inclusion with 96% of the adult population served by the formal financial sector, according to the South African Finscope survey 2021. But concerns linger regarding the depth of usage. A local survey respondent noted that, 'while users are included in the formal financial system, they don't engage meaningfully and a low savings culture still persists'.

To urge the shift towards digital services, exploring more sophisticated applications of digital payments beyond basic transfers is also essential. For example, the disbursement of pensions digitally through prepaid cards and mobile wallets, as seen in the Central Bank of Egypt's collaboration with the ministry of social solidarity, replaces existing pension cards with a closed-loop system. Integrating biometric authentication further enhances resilience in digital payments, ensuring greater security and accessibility.

To truly achieve financial inclusion, it is imperative to move beyond mere access and encourage more advanced use of digital financial services. As Dorothee Delort, senior financial inclusion specialist at the World Bank highlighted, the objective is to 'build an ecosystem' that fosters a transition 'beyond access towards usage' in the realm of digital financial services. This shift in perspective is paramount to realising the full potential of digital finance in promoting financial inclusion.

Integration of new technologies

As new technologies are developed, they can be used to support efforts to improve levels of financial inclusion. Among these, mobile payments and advanced digital identification systems have emerged as powerful tools with the potential to revolutionise the financial inclusion landscape. When asked about countries that inspire policy-makers in their efforts to create an inclusive financial system, Kenya and India were two countries mentioned by almost all respondents.

Kenya was selected by respondents 'owing to the strides made in mass adoption and usage of financial services'. The introduction of the m-pesa in 2007 demonstrated the possibilities of innovation, public-private partnership and leveraging technology for digital financial inclusion. What started as a bank product from a partnership between Safaricom and Commercial Bank of Africa in Kenya, today operates in seven African countries, and has more than 50m users. It operates as a means of credit supply by commercial banks and microfinance →

'Private and public sectors have to collaborate to educate and clearly articulate the benefits and opportunities that an inclusive digital economy can unlock for all.'

Mohamed Benomar, country general manager of MENA West, Mastercard

'Private and public sectors have to collaborate to educate and clearly articulate the benefits and opportunities that an inclusive digital economy can unlock for all.'

Mohamed Benomar, country general manager of MENA West, Mastercard

institutions and has evolved to allow users to send and receive cross-border remittances using mobile phones.

The 2021 FinAccess Household Survey published by the Central Bank of Kenya found that formal financial inclusion extended to 83% of the population in 2021. This is a marked increase from the baseline level of 26% in 2006. While all of the progress cannot be attributed to the introduction of m-pesa, the product has in many ways contributed to this substantial improvement.

India's digital public infrastructure – the India Stack – had been recognised as a potential model for countries seeking to boost levels of financial inclusion. The India Stack is interoperable and allows private companies to build apps integrated with state services, allowing consumers to access a wide range of services.

The stack includes three layers, the first being identity, which is linked to the Aadhaar digital identification scheme, launched in 2009. Second is the payments layer, which includes the Unified Payments Interface digital money system, introduced in 2016. Third is a data layer, which citizens can use to store documents virtually. The system is one example of leveraging technology for financial inclusion purposes.

In the Middle East and Africa, there have been efforts to incorporate digital identification systems as a tool for advancing financial inclusion. Countries such as Madagascar and Morocco have undertaken noteworthy initiatives. Madagascar is in the pilot phase of a national identity document project scheduled for completion in 2024. Morocco has launched a national platform that facilitates identification and authentication of service users through electronic identification cards (Carte Nationale d'Identité Electronique) implemented by the National Security Department (Direction Générale de la Sécurité Nationale). Initiatives like these contribute to the establishment of comprehensive digital infrastructures and indicators – a key objective outlined in the 2023 Financial Inclusion Action Plan of the G20 Global Partnership for Financial Inclusion.

Other countries have adopted similar measures to improve access to financial and other services through digital public infrastructure. Singapore recently launched its Digital Connectivity Blueprint to plan and invest for a digital infrastructure stack, which includes hard infrastructure (connectivity networks, data centres and cloud service providers), physical digital infrastructure (devices, middleware and networks) and soft infrastructure (digital identity, e-payments, e-invoicing, document attestation and data exchange). The initiatives aim to leverage new and existing technologies to build infrastructure that showcases how a digital world can contribute to achieving financial inclusion targets as well as broader development goals.

Central bank digital currencies have also garnered some attention for their ability to promote financial inclusion in different countries in the regions. However, 'CBDCs are not a panacea', noted Jean Pesme, global director, finance, competitiveness and innovation at the World Bank. 'The focus should be on the details, the aim, futureproofing and design accordingly.' Using CBDCs as a tool to improve financial inclusion would require an understanding of the underlying causes of financial exclusion and the nuances of digital currencies as compared to mobile money, the financial implications of introducing them without disrupting existing payment systems and considerations about intermediaries.

For example, Mastercard Farm Pass and Community Pass initiatives leverage existing technology that is not only secure but also capable of functioning offline to improve access and use of financial services in rural areas. Farm Pass is Mastercard's agriculture solution for smallholder farmers in sub-Saharan Africa that provides access to a stable marketplace with transparent pricing. This enables farmers to secure necessary capital, quality inputs and agricultural advisory services. It has garnered over 1m farmers in Uganda, Tanzania, Kenya and India, and led to a remarkable 20% increase in harvest productivity, underscoring the potential of these digital solutions in transforming traditional practices.

Although there are plenty of opportunities for digital identification systems and a broader digital public infrastructure to improve financial inclusion, it is important to also note potential risks. For example, critics of the Indian system point to access and privacy issues that emerge. Literacy levels, access and understanding of technology among citizens are some of the barriers that hinder further financial inclusion.

There also needs to be a conscious effort to ensure regulatory oversight, including but not limited to data protection laws that encourage cross-border data flows between countries.

As new technologies continue to evolve, they provide opportunities to revolutionise the financial landscape and increase accessibility to financial services. Mobile payments and wallets can offer innovative solutions to enhance payment systems and rural access, while digital identification systems could simplify and secure access to financial services. These advancements, and others, can play a pivotal role in breaking down barriers and empowering individuals and businesses with improved access to a wide array of financial services.

Stakeholder collaboration and coordination

In the pursuit of enhanced financial inclusion, an approach that incorporates multi-stakeholder collaboration with concerted efforts to improve financial literacy is key. This effort also needs to address the significant cost barriers associated with financial services. While substantial progress has been made, there is still work to be done to ensure that financial services are accessible to all.

The active engagement of key stakeholders, including central banks, government agencies and private sector players, has already yielded noteworthy achievements in advancing financial inclusion. However, this mission remains a work in progress, requiring a multi-pronged strategy to overcome persistent challenges.

Stakeholder collaboration is instrumental in this journey. In countries like Pakistan, where central banks own the national payments system, there is a growing recognition of the need for increased private sector involvement. This collaboration can take the form of public-private partnerships, aimed at improving the efficiency and accessibility of financial services.

To go a step further in ensuring collaboration is transparent and efficient, policy-makers can also look to introduce open consultations regarding laws and regulations that relate to financial inclusion in countries. Leveraging the insights and expertise of the private sector, particularly fintech companies, is crucial for ensuring that digital financial services meet the population's diverse needs.

Participants in the seminar emphasised the role strategic policy-making can play in this endeavour, striking a balance between enabling innovation and protecting the most vulnerable members of society. This balance requires regulatory frameworks that are flexible and adaptive to address evolving risks, avoiding a one-size-fits-all, rules-based approach. Acknowledging the significance of demand-side issues, such as access and knowledge, is just as vital as focusing on the supply of digital services.

Regulatory measures should align with the specific needs and circumstances of the people they aim to serve. Khalid Elgibali, division president, Middle East and North Africa at Mastercard, explained that 'Mastercard has been working closely with governments to deliver on the shared vision of building a sustainable economy that is inclusive for all. We are committed to assisting governments in building digital economies that are inclusive, resilient and sustainable. We help to build highly collaborative and productive partnerships across private and public sectors – focused on jointly solving important government challenges, with the highest security standards, to ensure citizen trust and confidence.'

International collaboration is equally valuable. Exchanges of best practices, such as those outlined in the WEF and Mastercard white paper on shared principles, provide valuable insights when designing strategies and programmes. However, it's essential to recognise the distinct characteristics and challenges specific to different jurisdictions. While shared principles offer a solid foundation, tailoring solutions to the context of each region is pivotal for success.

The Middle East and Africa have immense potential to become global leaders in financial inclusion by way of digital innovation. By embracing principles that promote digital access, integrated systems, trust and economic sustainability, these regions can forge a path to a more inclusive and prosperous financial future for all their citizens. Collaboration between governments, central banks, financial institutions and technology providers will be instrumental in realising this vision. While the journey towards financial inclusion is ongoing, these regions are well-positioned to take significant strides in this critical endeavour. •

1m

Farm Pass has garnered over 1m users and led to a remarkable 20% increase in harvest productivity.

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