

Digital Financial Inclusion in Emerging Market and Developing Economies

April 28, 2022

Sumiko Ogawa
International Monetary Fund

The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.

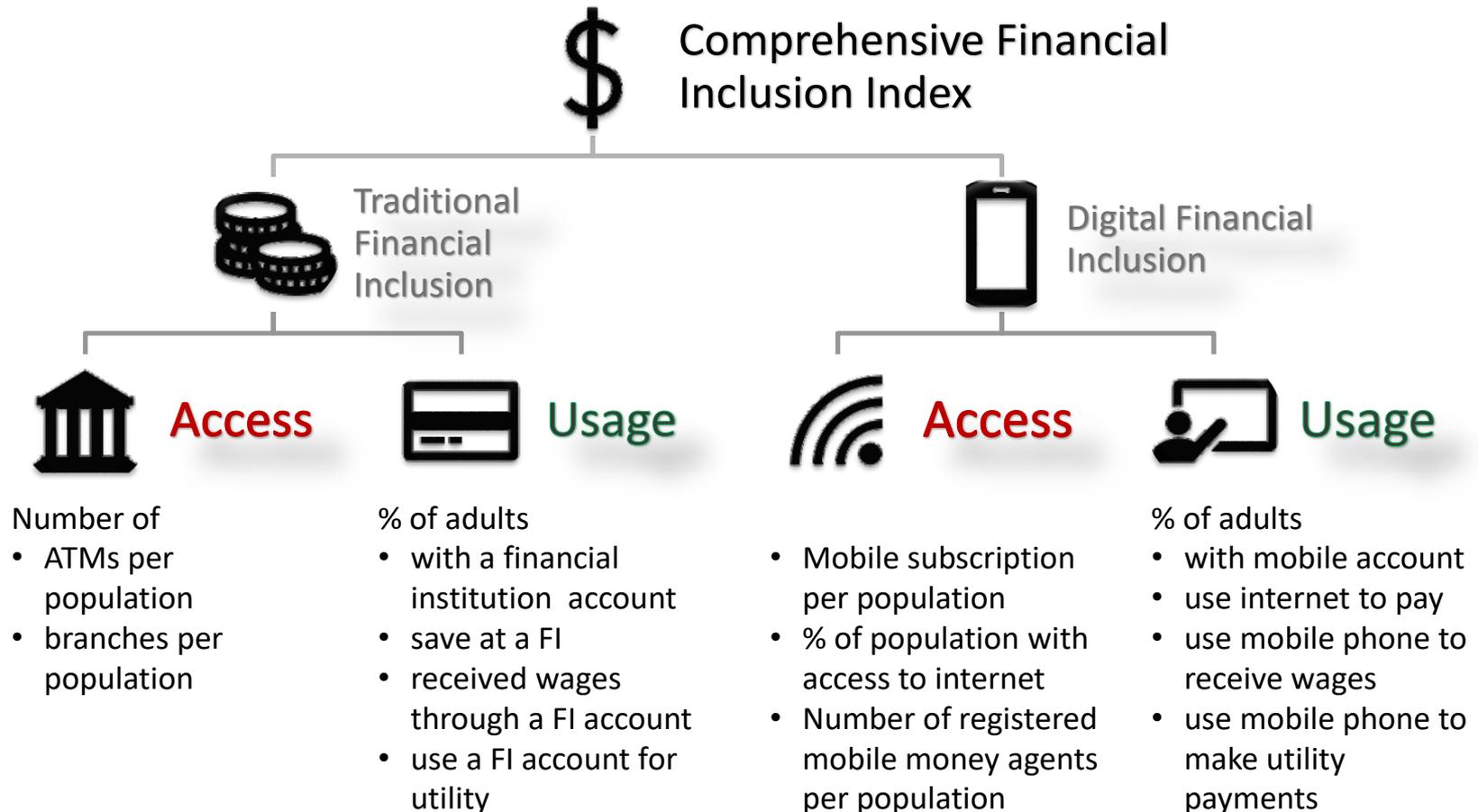
Outline

- Motivation
- State of digital financial inclusion in EMDEs
- Potential benefits of digital financial inclusion
- New sources of risks to financial inclusion?

Motivation

- Rapid adoption of technology in the financial sector
 - Adoption by traditional financial institutions (e.g., banks)
 - New entrants, e.g., telecom companies, fintech companies
 - Expansion in the range of services
 - Digital payments services, e.g., mobile money
 - Credit provision, leveraging data from e-commerce and digital payments platforms
 - Improved accessibility to and affordability of digital infrastructure
- Existing measures of financial inclusion needs to be supplemented

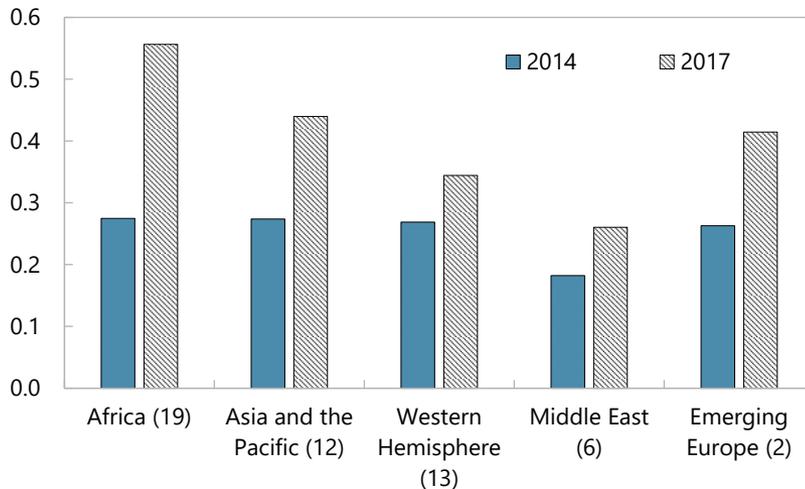
Digital Financial Inclusion Index: Structure



Africa and Asia leading digital financial inclusion

Africa and Asia are leading digital financial inclusion...

Digital financial inclusion index

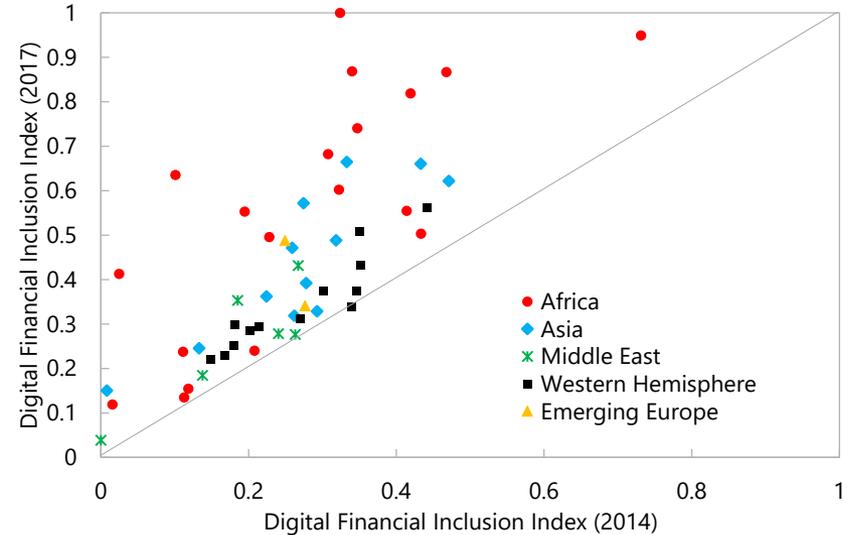


Note: Number in bracket indicates the number of countries in the sample.

... with all sample countries seeing improvements between 2014 and 2017

Progress in digital financial inclusion

(2014 - 2017)



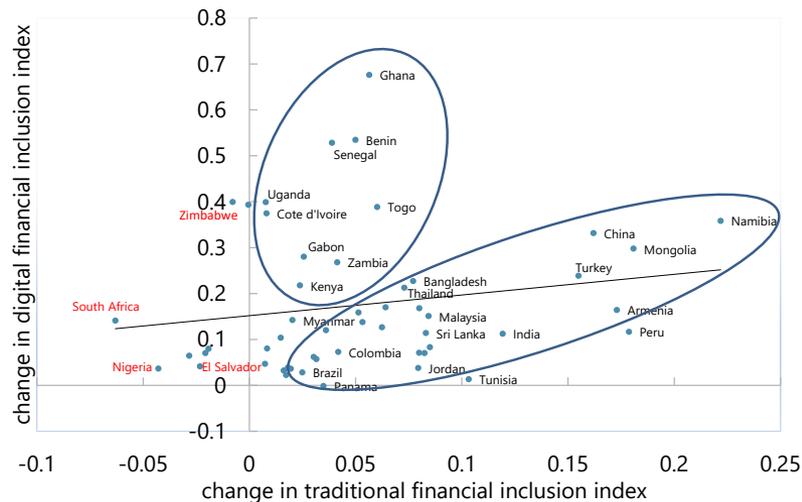
Digital means leading the improvements in financial inclusion

In some countries, improvements mainly driven by digital financial inclusion

Incorporating digital aspects change the picture of relative progress in financial inclusion

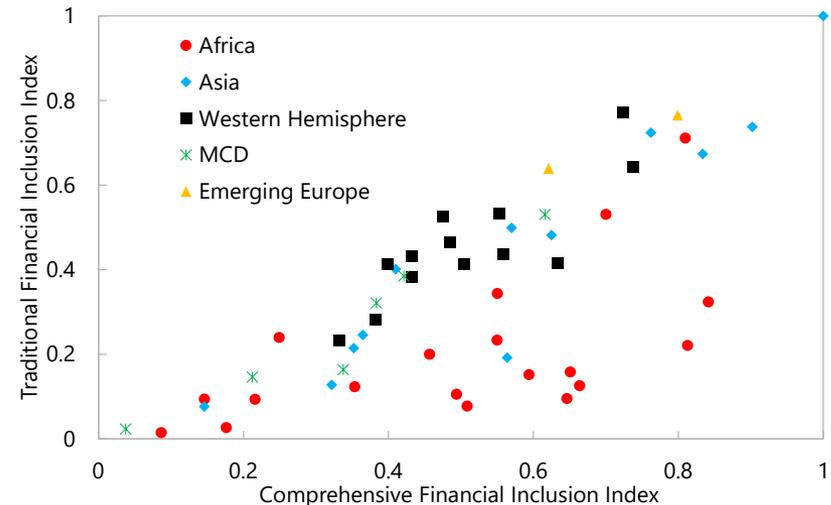
Changes in financial inclusion indices

(from 2014-2017)



Comprehensive vs. Traditional Financial Inclusion Index

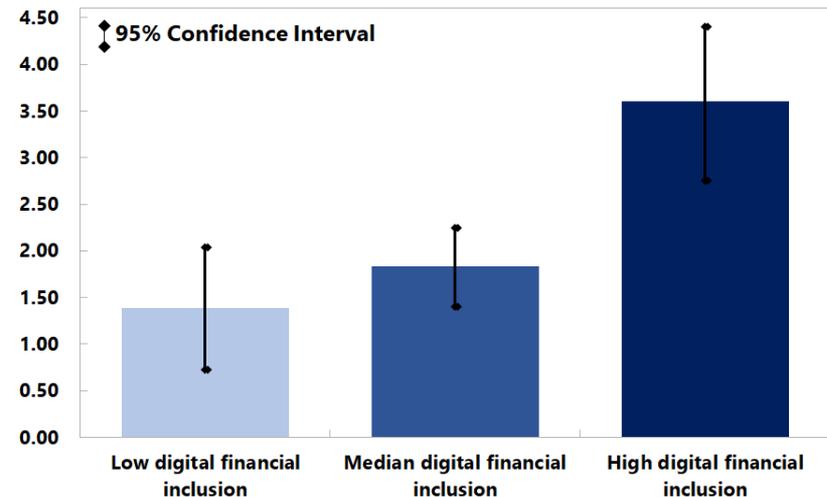
(2017)



Potential benefits of digital financial inclusion

- During the pandemic:
 - Continued access to financial services
 - Effective and secure delivery of government support
 - Contribution through developments in digital economy
- Greater financial inclusion associated with economic growth

Impact of Digital Financial Inclusion in Payments on Growth
(In percent of annual real GDP growth)



Risks: new sources of financial exclusion?

Financial Exclusion

```
graph TD; A[Financial Exclusion] --> B[Direct]; A --> C[Indirect]
```

Direct

- ❖ Digital exclusion:
 - Access to physical infrastructure
 - Human capital
- ❖ Biases in historical data and/or algorithms
- ❖ Credit procyclicality

Indirect

- ❖ Scaling back of MFIs and small banks
- ❖ Data privacy & cyber risks
- ❖ Gaps in safety net arrangements

References

- Sahay and others (2020), The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era, IMF Departmental Paper No. 20/09
- Khera, Ng, Ogawa and Sahay (2021), Digital Financial Inclusion in Emerging and Developing Economies: A New Index, IMF Working Paper No. 2021/090
- Khera, Ng, Ogawa and Sahay (2021), Is Digital Financial Inclusion Unlocking Growth?, IMF Working Paper No. 2021/167

Thank you!