CALL FOR RESEARCH PROPOSALS
AERC COLLABORATIVE RESEARCH ON: INCLUSIVE FINANCE FOR FRAGILE AND POST-CONFLICT CONTEXTS/STATES IN AFRICA

1. Introduction
African Economic Research Consortium (AERC), established in 1988, is a public not-for-profit organization devoted to the advancement of economic policy research and training in sub-Saharan Africa (SSA). AERC’s mission is to strengthen local capacity for independent, rigorous inquiry into problems pertinent to the management of African economies, through synergetic programs combining economic research with postgraduate training in economics.

The AERC collaborative research program addresses topical policy relevant issues and brings together seasoned researchers from both Africa and elsewhere to generate policy-oriented research. Research collaboration enables researchers to tackle complex yet contemporary research issues with a bearing on policy making in Africa that otherwise could not be adequately addressed by one or a few researchers and leverages diverse skills of researchers to deliver high quality research outputs.

2. The Project and Its Context
There is an abundance of empirical evidence over the years for positive linkage between financial sector development and economic development. The channels for this linkage are the multiple functions that the financial systems provide beyond savings and capital mobilization to include information production, price discovery, liquidity provision, etc. This, in turn, broadens access to finance and promote efficient allocation of resources, all of which contribute to economic development and potentially to poverty reduction.

Supported by a large body of studies that provide evidence of the role of financial sector development in economic development, African governments, in the last two decades, have embarked upon financial sector reforms aimed at enhancing the development and capacity of financial systems, including stock exchanges. The past decade has seen wide-ranging financial market reforms in Africa which, coupled with private sector-led innovations especially in mobile money, have led to far more people across the continent having access to formal financial services (broadening of financial inclusion).

Despite these successes, several challenges remain in Africa concerning financial sector development that is also inclusive and sustainable. This issue is particularly acute in fragile and post conflict countries (FPCCs). In FPCCs, only 14% of adults have access to a bank account, compared with 23% in Africa and 24% in SSA (Sile, 2013). Also, in FPCCs, women are 32% less likely than men to have a formal account (19% in other developing economies) and those aged 15-24 are 39% less likely than those aged 25-64 to have a formal account (World Bank, 2013). This is the challenge of financial inclusion in FPCCs: it is in precisely these countries that having a safe place to save or a reliable method to receive remittances is most important, yet access to and usage of basic financial services remains disappointingly low. On average, after access to electricity, lack of access to finance is cited as the highest business constraint in African fragile contexts (Leo, et al., 2012).
To inform development policy and discourse especially as it relates to FPCCs, AERC proposes to launch a collaborative research project on Inclusive Finance for fragile and post conflict countries in Africa. There are at least two reasons for supporting financial sector development in FPCCs. First, while financial stability is to be distinguished from political stability, evidence suggests that “the reduction of income inequality through financial development and inclusion could lead to greater social and political stability, which in turn could contribute to greater financial system stability” (Cull et al., 2012). Hence financial development and inclusion, by reducing income inequality, could be considered as a potential means to tackle the vulnerability of African fragile states.

Second, poverty rates in fragile states are, on average, 20% higher than in countries with comparable levels of economic development; the gap is widest for countries affected by repeated cycles of violence (Sile, 2013). As a group, fragile and conflict affected countries lagged behind in reaching the Millennium Development Goals, with nearly two-thirds failing to meet the goal of halving poverty by 2015.1 Finance plays a crucial role in poverty and conflict cycles, as lack of access to financial services stifles entrepreneurial activities and thus may perpetuate and/or deepen poverty leading to underdevelopment and stagnation, thereby exacerbating social and economic tensions.

Third, and more specifically, fintech is an important new area of financial sector development and bears great promise for enhanced financial inclusion, especially in fragile and post conflict countries, where the traditional financial sectors are generally underdeveloped, thus allowing for leapfrogging by these countries. Fintech should enhance access to financial services in fragile and post conflict countries and thus potentially improve economic outcomes for citizens of these countries. An early and successful fintech is M-Pesa, a set of mobile financial services products developed and popularized in Kenya, but now adopted across the globe. There is need to understand how the fintech would interface with the traditional financial sectors in these countries, and the potential implications for regulation and consumer protection, especially given the regulatory capacity challenges in these countries. This project will thus explore in detail the potential for fintech to bridge the financial access divide, and the measures that would need to be put in place to enable broadening and deepening of financial inclusion in fragile and post conflict countries to support economic development.

Against this backdrop, this AERC collaborative research project seeks to better understand financial sector development and inclusion in fragile and post conflict countries in Africa, with a view to inform policy on Africa’s inclusive growth and realization of the 2030 agenda for sustainable development (SDGs). Specifically, this collaborative research project will study the role of financial inclusion in achieving the UN sustainable development goals (SDGs) in fragile and post-conflict situations. Achieving the SDGs (such as eliminating poverty, creating jobs, improving gender equality, and good health) would be tougher without bringing people into the banking system. For instance:

✓ People who access financial services have greater security and privacy over their money. Savings accounts make it easier to save, so people save more and earn more.
✓ Increasing account ownership also would promote gender equality (SDG No. 5). Financial inclusion of farmers can unleash larger investments in the planting season. The result: higher yields—and progress toward greater food security (SDG No. 2).
✓ Financial inclusion will encourage good health (SDG 3). A savings account allows parents to pay for a clinic appointment for kids. Out-of-pocket health care costs are one of the reasons

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1 By 2016, the 50 countries and economies on OECD’s 2015 fragile states list – of which 30 were African – were home to 43% of the global population who live on less than US$1.25 per day and by 2030.
why people fail to access healthcare. But give them an account (a safe place to store money) and there will be increased health spending.

✓ Digital technology helps boosts financial inclusion … and achieving the SDGs. Digital financial payment products – a mobile phone linked to a bank account – allow people to receive remittances from far-flung relatives and friends in a crisis, reducing the odds they’ll fall into poverty. A study of Kenya’s mobile phone-based money platform, M-Pesa, showed users are more likely to receive a remittance when hit with a financial shock, like a job loss2.

✓ There’s growing evidence that digitizing payments—for health, education or other social safety nets – yields big benefits for individuals, in addition to improving efficiency for governments and aid agencies by reducing transaction costs and leakage.

✓ Evidence is emerging showing that retail electronic payments platform has pushed financial inclusion for the population at the bottom of the pyramid. It has led to inclusive finance – women can save and enlarge their asset base in products that cannot be encroached.

✓ The retail electronic payments platforms have ignited national electronic payments systems and digitization that has become useful in public services, tax payments and government revenue administrations – including success targeted social protection programs with minimum revenue leakages.3

Prioritizing access to financial services does not take away resources from other priorities set through the SDGs. In fact, the evidence gathered to date builds a strong case that financial inclusion helps create the conditions that bring many of the SDGs within reach. Designed as part of the AERC-IDRC co-operation on Promoting Leadership for Economic Policy in Fragile Countries in Africa, the project will generate detailed evidence on the link between financial inclusion and development in selected countries.

3. The Call for Research Proposals
This Call is for Proposals to undertake research and country case studies on the growth-poverty-inequality-redistribution relationships in Africa.

The research may relate to cross-national and/regional studies seeking to develop and/or apply analytical methodologies on the issue under investigation whilst country case studies will seek to deepen understanding of the role of inclusive finance in economic growth and development in Africa’s fragile and post-conflict settings/situations by paying greater attention to nuances in the specific countries (or group of countries). Under this project, AERC will commission 10-15 studies leading to quality policy research and analytical papers. The project prioritizes studies on the following countries: Angola, Burkina Faso, Burundi, Chad, Central African Republic, Congo, Democratic Republic of Congo (DRC), Eritrea, Gambia, Guinea, , Guinea Bissau, Lesotho, Liberia, Madagascar, Mali, Mozambique, Sierra Leone, Somalia, South Sudan, Swaziland/Eswatini, Togo. To that end, proposals should identify and briefly describe the datasets to be used (see below).

The research will focus on, but not limited to the following themes:

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• Inclusive finance as driver of growth and inequality.
• Interface between financial inclusion, economic growth and poverty reduction.
• The financial system and the flow of funds
• Financial Liberalisation
• Financial regionalization
• Microfinance and financial inclusion
• Finance for SMEs
• Finance and technology
• Finance and corporate governance
• Stock market development
• Banking sector development
• Financial regulation (banking and stock markets)
• Women empowerment, youth and financial inclusion.
• Remittance flows to post-conflict states.
• Health benefits of financial inclusion
• The role of education and financial inclusion in post-conflict states.

4. Proposal Requirements
   Each proposal, not to exceed 15 pages, should include the following:
   i) Objective(s): A brief statement of the specific objectives of the study and country(ies) of focus.
   ii) Methodology and Data: In addition to the usual statement detailing how the research objectives are to be achieved, researchers intending to investigate specific issue(s) drawing on country data must demonstrate availability and access to the requisite data required for the study.
   iii) Expected Outputs: A high quality, policy relevant and publishable research paper to be approved by independent peer reviewers. A policy brief of no more than 5 pages should also be produced.
   iv) Statement of Qualification and Current CV(s) for each author (include in the CV: nationality, gender, and full contact details). Women are particularly encouraged to apply.
   v) Work Programme and Timeline: A brief description of the activities and timeline needed for each activity. Total duration of the study should not exceed 12 months.
   vi) Budget: Estimated expenditure by major line items, e.g., research assistance; travel; computer time; secretarial support; honorarium etc. Total budget should not exceed US$15,000.

5. Submission Requirements and Key Dates:
   Proposals must consist of: (i) a maximum of 15 pages setting out issues to be analysed together with methods to be used; (ii) a CV for each author (including in the CV: nationality, gender, and full contact details). Submit your proposal to: AERC Collaborative Research at cresearch@aercafrica.org on or before August 5th, 2020. Authors will be informed of the outcome of their proposal by August 20th, 2020.