REGIONAL POLICY FORUM

FINANCIAL INCLUSION AND MARKET DEVELOPMENT IN EAST AFRICAN COMMUNITY

CONCEPT NOTE

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Finance plays a crucial role in poverty and conflict cycles. 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. Africa's inclusive growth and realization of the 2030 agenda for sustainable development (SDGs) depend on inclusive finance in the first stage. 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).

Fintechs and digital financial services are important areas of financial sector development and bears great promise for enhanced financial inclusion, especially in sub-Saharan African countries, where the traditional financial sectors are generally underdeveloped, thus allowing for leapfrogging by these countries. Fintechs should enhance access to financial services 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. Interoperability—the ability for different systems to connect with one another—enhances integration of financial systems in respective countries and/or regions. It transforms the functioning of financial sector with the magnitude of the impact determined by several factors, which vary within and across countries. There is need to understand how these fintechs 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.

Promoting inclusive growth in the economy, including financial inclusion, is critical to sustainable development as it includes the majority of the population such as the poor and the disadvantage groups in both urban and rural populations in developing countries. Inclusive growth implies "economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality"

The provision of financial and banking services at affordable cost to economically disadvantaged groups including the underprivileged and low-income groups supports financial inclusion (FI). FI is achieved when a broad range of high quality, relevant, appropriate and affordable financial products -savings, credit, insurance, payments and pensions, etc., -- are available and accessible to all. Financial inclusion supports the objectives of financial stability, integrity, and consumer protection and drives economic and social growth. It also requires that the financial regulatory reforms become central to national strategies for improving financial stability and integrity, protecting financial consumers, and guarding the financial system against the risks of the widespread use of cash. Regulatory environment should balance the needs of advancing access to finance with the stability of the financial system. Financial exclusion is increasingly being recognized globally as a risk to political stability that impedes economic advancement. With these interrelated challenges facing financial sector development in Africa and the East African region, the study was designed to understand the key challenges relating to fintech and digital financial services for the poor (DFS) that need resolving for enhanced financial inclusion and broad-based development to be realized in the region. The challenges related to regional alignment on payments interoperability, scalability of diverse financial services; accessibility to the network so that no one is left behind, strengthening capacities of financial regulatory institutions, digital identification (E-ID), regional consumer protection, and development impacts.

Through a generous support by the Bill and Melinda Gates Foundation (BMGF), African Economic Research Consortium (AERC) has conducted collaborative research on "**Financial Inclusion and Market Development in East African Community**". The research draws on country-specific evidence from Kenya, Rwanda, Burundi, South Sudan, Tanzania and Uganda to inform policy and practical efforts to deliver digital financial services for the poor and support market development within the East African Community (EAC).

The Regional Policy Forum brings together key stakeholders from financial institutions, private sector and policy research institutions who have important roles to play in shaping new research findings, paving new policy directions, and initiating innovative practices in the areas of financial inclusion and market Development.