Harnessing the Promise of Digital Finance

By Patrick Njoroge

On August 26, 2020, the United Nations Secretary-General (UNSG) António Guterres launched the report of his Task Force on Digital Financing of the Sustainable Development Goals (The Taskforce), on which I have served for the last 18 months. The report titled, "People's Money: Harnessing Digitalization to Finance a Sustainable Future," focuses on the needs of ordinary people. The financial system, the report concludes, must serve individual citizens, as savers, investors, borrowers, and taxpayers. It must leverage digital technology to put people back in the driver's seat of their finances, so that they can invest in themselves and their families, communities, countries, and the planet. Governments, regulators, and financial institutions should support and facilitate the disruptions that will get us there.

Launching the report, the UNSG António Guterres said, ''Digital technologies, which are revolutionizing financial markets, can be a game changer in meeting our shared objectives. The Task Force on Digital Financing of the Sustainable Development Goals provides leadership to harness the digital revolution.'' Digitization can propel us towards achieving the Sustainable Development Goals (SDGs). The global response to the coronavirus pandemic (COVID-19) crisis demonstrates how digitization can be harnessed to support vulnerable people, reduce inequalities, sustain livelihoods and maintain our social fabric.

Harnessing digitalization to develop a citizen-centric financial system to accelerate financing for the SDGs requires the development of digital financing ecosystems. Governments and regulators are seeking to support digital financing ecosystems through infrastructure development, active industry engagement, supportive regulatory frameworks and demand side capacity building.

In the East African Community (EAC), we have been at the frontier of digital finance. Since 2007, digital financial services have transformed our financial sector and indeed the lives of East Africans. During the pandemic, EAC countries including Kenya, Rwanda, Uganda and Tanzania have been global leaders in encouraging the use of mobile money to address the health and economic dimensions of COVID-19. Measures including waiver of charges on low value mobile money transactions and enhancement of mobile money limits, have facilitated official and personal transfers across the region in a time of great need.

Notably, the Taskforce drew significant inspiration from the advances in digital finance in the EAC. This included a convening in Nairobi in July 2019 during the Afro-Asia Fintech Festival. The Taskforce supported a Hackathon launched at the festival to draw on innovative ideas from African fintechs on how to leverage technology to support financing of the SDGs. Not surprisingly, the two winners were from EAC countries-Kenya and Uganda with solutions on how to promote savings through Savings and Credit Co-operatives and financing of sustainable coffee value chains. The 2020 edition of the Hackathon scheduled for August 31 seeks to harness the use of technology in addressing the health and economic impacts of the COVID-19 pandemic, and has seen a positive response from EAC fintechs.

The EAC has made giant strides in harnessing digital finance, but much more is needed. There remains a significant gap in funding of the SDGs in infrastructure, health, education and social services. This SDG financing gap particularly in health and education has widened with the adverse effects of the pandemic. Our Micro, Small and Medium Enterprises (MSMEs) remain grossly underfunded, yet they are at the heart of our economies. With the increasing linkages between our countries, economies of scale are imperative for digital business models. This can be achieved through building regional ecosystems.

The EAC already has a long history of co-operation on a wide array of socio-economic issues including responding to emerging technologies. One of the report's key recommendations is on building of regional digital financing ecosystems. In particular, the East Africa region is identified as a prime candidate for such a system. Increasing the market would allow the full benefits of digitalization to be realized. Building local demand and encouraging widespread adoption of digital financing by users and incumbent financial sector players requires deepening of domestic and regional markets.

An EAC digital financing ecosystem would expand the market for financial solutions aligned to SDGs, promote regional cooperation and governance. More importantly, it would bring more of our citizens into the financial system, support economic growth and shared prosperity. SDG aligned digital finance solutions would increase access to critical social services including education, health, water and sanitation and infrastructure. We would also be able to innovatively catalyze lending to our MSMEs across the region by addressing their key barriers particularly lack of physical collateral.

The Central Bank of Kenya (CBK) has been collaborating with the Monetary Authority of Singapore over the last two years, to learn how to foster a vibrant financial-technology sector that stretches across Africa and Asia. The EAC is a natural foundation for this initiative and CBK stands ready to work with other policymakers, regulators, private sector players and fintechs in realizing this vision of a regional digital finance ecosystem.

Undoubtedly, with opportunities comes risks. As we grow digital finance across the region, cyber risk comes to mind as a significant systemic risk. To their credit, EAC Central Banks are already working to jointly develop common cyber security regulatory standards. This will enhance cyber security information sharing, co-ordination and strengthen our defenses as digital finance scales up across the region.

This is a historic opportunity to harness digitalization in reshaping finance that must be grasped now, given the urgency to finance the SDGs, the short window of change resulting from a period of digital disruption, and the potential to maintain the digital momentum of the current crisis.

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