



“WORKING TOWARDS A HUMAN-CENTRIC DIGITAL FINANCIAL INCLUSION”

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Health and economic lockdowns as a result of COVID-19 are severely harming the world's poorest populations and exposing structural flaws in our ability to address some of the most pressing issues. The economic consequences of this crisis have already reversed years of progress to reduce global poverty worldwide¹⁰ and pose serious risks to the effectiveness of the global development system in responding to the crisis.

In our journey towards a 'Build Back Better' recovery, we need to profoundly embrace the opportunities provided by the digital revolution. According to the World Bank Group, an affordable and inclusive digital economy can raise the global gross domestic product (GDP) by 2 percent every year, consequentially reducing poverty if human capital investments are made. Depending on the definition, recent evidence shows that the digital economy represents around 15.5 percent of the global GDP and is forecasted to reach 25 percent in less than a decade.¹¹

A sustainable recovery, in which global efforts focus on a green and digital transition, is a strategic objective for the European Union (EU). In this context, stepping up digital financial inclusion is a must to empower the world's poorest to capture opportunities while building resilience.

¹⁰ World Bank, "COVID-19 to Add as Many as 150 Million Extreme Poor by 2021", 7 October 2020. Available at <https://www.worldbank.org/en/news/press-release/2020/10/07/COVID-19-to-add-as-many-as-150-million-extreme-poor-by-2021>.

¹¹ United Nations Conference on Trade and Development (UNCTAD), "Value creation and capture: implications for developing countries" in *Digital Economy Report*, (2019).

Advancing digital financial inclusion for the people living at the bottom of the pyramid means embracing the radical transformation of the financial service ecosystem for the poor. Over the years, there has been a dramatic reshaping in how financial services can better capture people's needs, as microcredit morphed into microfinance and eventually into digital finance and more recently digital financial inclusion.

Through the digital transformation of financial inclusion, new services are emerging and scaling across the spectrum, including health, education, energy, and agriculture. In addition to this continuous transformation, we have witnessed a fierce change in the nature of livelihoods, which has been profoundly altered by factors such as globalisation, demographics, and climate change. It is now fundamental to bring a human-centric focus to this new paradigm shift while embracing the digital revolution.

Within the EU, we have seen the potential for an integrated financial inclusion ecosystem through the Digital Single Market, which has created a competitive and innovative common market for more than 500 million people. With the adoption of the strategic document '*Digital4Development: mainstreaming digital technologies and services into EU Development Policy*', we are promoting digital economies in the rest of the world. Priority actions focus on affordable and secure broadband connectivity, digital literacy, and entrepreneurship. Each of these priority areas highlight the role of digital technologies as an enabler for the Sustainable Development Goals (SDGs).

Amid the opportunities presented by the digital economy, the digital revolution brings new challenges and risks. This includes a growing digital divide, market disruptions, cyber security risks, and a threat to personal data protection. It is therefore fundamental for development partners to join forces and support the creation of a conducive ecosystem with enabling policy solutions to avoid the expansion of digital inequalities.

Digital financial inclusion can be a powerful source to thrive in the digital economy and stimulate economic progress. Additionally, if combined with digitally-enabled innovations, it could pave the way

for new viable markets and economic opportunities for the private sector. This will increase fiscal revenues for governments to alleviate inequalities and extreme poverty among vulnerable populations.

With the emergence of these new trends, it is crucial to enhance conducive dialogue between the public and private sectors. Significant scope exists to increase cooperation between actors to capture new opportunities but also tackle old problems in innovative ways. This approach is a key feature of the new Digital4Development Hub, where key European actors have joined forces to advance the EU Digital4Development Agenda.

The COVID-19 crisis has reiterated the importance of building resilience in local communities by working in a more integrated approach. This means combining financial resources, technical assistance, and an enabling policy environment to support local ecosystems. In line with this, the EU and the Organization of Africa, Caribbean and Pacific States (OACPS) are using an integrated approach to ensure financial inclusion is a key feature in the initial COVID-19 response and economic recovery. Using financial resources, capacity building, and policy, this work can enable a range of digital solutions. For example, the use of digital services can ensure health workers are paid on time or create an efficient digital payment ecosystem so individuals can safely access government support.

Together with UNCDF, we are now exploring how to best deploy transformational and incremental digital finance solutions for more than 600,000 people across the globe.

As the EU, we are ready to continue joining forces with business and development partners to harness the potential of the digital revolution to solve the most pressing development challenges ahead of us.

