AFRICA PROGRAM OCCASIONAL PAPER

Financial Inclusion in the COVID-19 Era: Policy Responses in West Africa

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The success of mobile money (MM) in East Africa since its introduction in 2007 has spawned a greater interest in issues of financial inclusion across Sub-Saharan Africa (SSA). Since 2010, a growing number of SSA countries have prioritized financial inclusion as a key driver of development and the Sustainable Development Goals. Several have either launched or are developing national financial inclusion strategies and have signed up to various compacts aimed at boosting financial inclusion. MM services are at the core of these strategies, and many financial regulators are scaling up efforts to make these services an integral part of national payments infrastructure.[1] According to the World Bank's Global Findex report (2017), the share of adults in SSA with access to accounts in financial institutions or MM services increased from 34 percent to 43 percent in the period, 2011 to 2017. The report further states that whereas the share of adults in SSA with accounts in financial institutions remained flat over this period, adults with MM accounts nearly doubled, from 12 percent in 2014 to 21 percent in 2017.[2] SSA is now a global leader in the use of MM, accounting for 45.6 percent of the world's MM customers.[3] This progress notwithstanding, the region is still home to the world's largest unbanked population and has a wide gender gap in terms of access.

Like the rest of SSA, West Africa has seen massive development in its Digital Financial Services (DFS), particularly MM services. While initially concentrated in East Africa in 2014, by 2017 MM was in widespread use in many West African countries. Today, more than a third of adults in Burkina Faso, Côte d'Ivoire, Ghana, and Senegal own MM accounts.[4] Through MM, many households in both rural and urban areas of West Africa are now accessing financial services and essential utility services, and receiving remittances safely, quickly, and conveniently.[5] The sub-region's regulatory regimes are also fast evolving to facilitate DFS. With support from development partners, central banks within the sub-region are formulating or are already implementing financial inclusion strategies. In short, much progress has been made in recent years by West African governments to harness the sub-region's high mobile phone penetration rate (86 percent) in order to provide safe and affordable financial services.[6]

Unfortunately, the financial inclusion agenda in West Africa is seriously threatened by the COVID-19 pandemic that is currently wreaking havoc globally, ravaging lives, destabilizing healthcare systems, and bringing economies to their knees. As a result, the spread of the virus and related interventions could potentially derail the gains made by West Africa in financial inclusion in the recent past. On the one hand, restrictive measures introduced to curb the spread of COVID-19 have led to the widespread closure of bank branches and halted the operations of MM service agents (who facilitate cash-in/cash-out services), with far-reaching implications for the adoption and use of DFS platforms now and in the future. On the other hand, COVID-19 response measures could spur the adoption of DFS. The 2014-2015 Ebola crisis heralded the introduction of MM in Liberia, Sierra Leone, and Guinea. MM services were critical in ensuring frontline health workers were paid on time, the delivery of cash transfers was seamless, ultimately helping stem the spread of the Ebola virus.[7] Responding to the COVID-19 pandemic in 2020, the World Health Organization (WHO) has advocated for greater use of contactless payment systems where possible, and washing of hands after handling cash.[8] These recommendations, and the fact that cash-based transactions occur in close physical proximity and thus could facilitate the spread of the virus, have led many West African governments to turn to DFS as a public health tool in the COVID-19 era.[9]

This paper explores the financial inclusion perspective of COVID-19-related interventions in various West African countries, with special emphasis on DFS. It examines: 1) the impact of COVID-19 on the DFS market in West Africa; and, 2) how various financial regulators and financial service providers (FSPs) have responded to the pandemic to sustain the gains in financial inclusion over the past few years.

COVID-19 in West Africa

West Africa's first COVID-19 case was recorded in Nigeria on February 27, 2020. As of June 16, 2020, the region had recorded 53,812 confirmed cases, 1,009 deaths, and 24,296 recoveries. Nigeria (17,148), Ghana (12,193), Ivory Coast (5,679), and Senegal (5,247) cumulatively account for more than 74 percent of the confirmed cases in the sub-region. The average Case Fatality Rate (CFR—the ratio between confirmed deaths and confirmed cases) in the sub-region was 2.9 percent, which was slightly higher than the continental average of 2.7 percent but lower than the world average of 5.5 percent.[10] The sub-region's highest CFRs were recorded in Niger (6.5 percent), Liberia (6.5 percent), Burkina Faso (5.9 percent), and Mali (5.6 percent).

All governments in the sub-region initially responded to the COVID-19 outbreak by adopting sweeping social-distancing measures and travel restrictions, including bans on public gatherings, partial lockdowns in major urban centers, and mandatory use of face masks in public. At the time of this paper, almost all countries in the sub-region had eased these restrictions. The focus is now on halting community spread through mass testing, tracing, and treating infected persons while boosting the capacity of health centers to manage cases. Testing in the sub-region however remains low, averaging 25,818 tests per every million people.[11]

Financial Inclusion in West Africa

West Africa's drive toward financial inclusion through DFS has been largely driven by increased mobile phone and internet penetration rates and adaptive regulatory regimes. As of 2018, West Africa had an 86 percent mobile phone penetration rate and a 26 percent mobile internet penetration rate, with Côte d'Ivoire, Ghana, and Nigeria accounting for about 70 percent of the internet users.[12] About 54 percent of the combined adult population of Benin, Côte d'Ivoire, Ghana, and Senegal use MM services frequently.[13] As of 2017, Ghana (58 percent), Togo (45 percent), Côte d'Ivoire (41 percent), Burkina Faso (43 percent), Senegal (42 percent), and Nigeria (40 percent) had the sub-region's highest shares of adult population with access to financial accounts. MM is fast becoming a widely accepted mode of payment within the sub-region for services, goods, wages, utilities, and government cash transfers. That notwithstanding, West Africa mirrors the continental gender gap in terms of access to financial services. While the gender gap in Côte d'Ivoire was relatively steady between 2014 and 2017, the gap increased in Senegal, Gabon, and Ghana during the same period. In Liberia and Sierra Leone, the gap was below the SSA average of 11 percent.[14]

Just before the COVID-19 pandemic, virtually all countries in West Africa were scaling up efforts to integrate MM services into their national payment infrastructure and developing the appropriate DFS policies. Plans were far advanced for member countries of the West African Economic and Monetary Union (WAEMU)—Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo—to develop their national retail payments interoperability systems to integrate mobile payments.[15] The WAEMU was also in the process of rolling out a regional project to make all types of financial accounts interoperable across its member states.[16] These efforts, however, have been hindered by the COVID-19 emergency.

Financial Inclusion and COVID-19 Interventions: Policy and Industry Reactions

Regulatory Interventions

Transactions, payments, savings, credit, and insurance in the sub-region have been massively impacted by the pandemic. To mitigate the economic fallout and sustain gains made in financial inclusion over the past few years, various West African governments through their central banks have instituted a broad range of measures:

1. The central banks in Cape Verde, the Gambia, Ghana, Liberia, Sierra Leone, and the WAEMU's regional central bank (BCEAO) have revised downward monetary policy rates, slashed minimum reserve requirements for banks and made available to commercial banks millions of dollars in liquidity to boost the supply of credit to critical sectors of the economy. Guinea and Liberia's central banks, on the other hand, have indicated that they are monitoring the situation and stand ready to respond to emerging problems within the financial sector.[17] To avert the impact of the pandemic on jobs in the financial sector, the Central Bank of Nigeria barred Nigerian banks from retrenching or laying off any staff during the pandemic.[18]

2. Recognizing that digital payments could help reduce the risk of COVID-19 infection, various central banks within the sub-region urged bank customers to make use of digital and online banking services and called on FSPs to make such services available. In March, Ghana suspended fees for transactions below GH¢100 (USD$18), temporarily raised MM transaction limits,[19] and allowed registered phone

users to open MM accounts that allow transfers of up to 1,000 cedis (USD$170) daily without providing additional documentation.[20] The Central Bank of Liberia suspended fees related to transfers of money from bank accounts to MM accounts, waived transaction fees for one month for merchant payments made with MM and for Person-to-Person (P2P) transactions, and increased the allowable limits for transactions for three months.[21] Similarly, the BCEAO waived fees for P2P transactions of less than 5,000 CFA Francs and increased MM account balance limits by more than 30 percent in countries under its jurisdiction.[22]

3. A few West African countries reduced barriers to private transactions by urging banks and other financial service operators to waive or lower fees and raise daily limits associated with electronic banking. In March, Liberia waived all fees for most electronic transfers, and the country's FSPs agreed to accelerate the use of electronic and digital forms of payment. Liberia also suspended all interbank transfer charges for three months, while Nigeria[23] and the BCEAO introduced measures to promote the use of electronic payments by FSPs. Nigeria ultimately declared MM service providers as essential workers during the lockdown. Guinea relaxed identification requirements for electronic money transactions and encouraged FSPs to reduce transaction fees. The Ghana Interbank Payment and Settlement Systems Limited waived all fees on electronic payments services used by its partner FSPs for a month.

4. Some regulators in West Africa, especially those in countries with relatively well-established financial technology (fintech) industries, have ramped up support to fintech companies during the pandemic. Both Ghana and Nigeria postponed plans to tighten regulation in their fintech sector, which involved increasing the minimum capital requirements for these FSPs. Since the COVID-19 outbreak, Ghana has made more regulatory modifications to its DFS landscape than any other West African country. Its central bank approved the first-ever fintech licenses (to the firms Zeepay and Nsano); established a new FinTech and Innovation Office to oversee and manage licenses for electronic money issuers; launched Africa's first universal Quick Response Code and Proxy Pay system; and, introduced three financial inclusion policy documents: the National Financial Inclusion and Development Strategy, the DFS Policy, and the Cash-Lite Roadmap.

5. Many central banks in West Africa are encouraging FSPs to adopt moratoriums and restructure loan repayment terms. Cape Verde introduced a three-month moratorium on loan repayments for households, companies, and non-profit associations with good credit records.[24] In Ghana, commercial banks were urged to grant a six-month moratorium on principal repayments for selected businesses, while Guinea suspended non-performing loans classification for businesses and individuals impacted by the pandemic.[25] The BCEAO set up a framework to incentivize banks and microfinance institutions to grant a renewable three-month moratorium on repayment of loans to affected customers—without classifying them as non-performing loans.[26] Meanwhile, Nigeria introduced a one-year moratorium on its intervention facilities and introduced regulatory forbearance to enable banks to restructure loans in sectors impacted by the pandemic.[27] In the insurance sector, Cape Verde[28] and Guinea suspended insurance payments for the period of the pandemic, while Nigeria extended the deadline for insurance providers to meet a new minimum capital requirement.

6. To mitigate the debilitating economic effect of the COVID-19 related lockdowns, a few West African governments launched direct cash-transfer programs to assist vulnerable households and small and medium-sized enterprises (SMEs). Whereas Cape Verde,[29] Ghana, and Nigeria used a cash-based

approach, Togo harnessed a mobile-based cash transfer approach to provide emergency financial support to households in its capital city, Lomé. Mobilization efforts through established funds like Ghana's COVID-19 Fund and Nigeria's Solidarity Support Fund are making extensive use of digital channels.

Supply-side Interventions

COVID-19-related lockdowns and the implementation of social-distancing protocols in various West African countries have placed at risk the operations of credit-issuing organizations, such as microfinance institutions, savings and credit co-operative societies, off-grid energy providers, and fintechs, all of which are heavily dependent on human interactions.[30] As a result, the COVID-19 pandemic has empowered DFS platforms to take the reins of the financial sector in some countries. The following are but a few of the responses of various DFS providers in West Africa:

1. In compliance with their respective central banks, most FSPs in West Africa waived or lowered their transaction fees and placed a moratorium on loans and insurance payments. In Ghana, the telecommunications firms MTN and Vodafone waived fees for P2P transactions, while MTN Nigeria also waived fees for money transfer service by MM agents.[31] In Liberia, MM operators waived fees for all P2P, merchant payments, and bank-to-wallet transactions. In Ghana, Fidelity Bank waived fees for digital transactions of less than GH¢100, while Absa Bank offered a six-month moratorium on loan repayments. In Senegal, mobile money operator Orange, waived fees for utility bill payments, while T-Cell of Togo waived all fees on its payments platform.[32] A few fintechs in the sub-region have voluntarily offered cash-free transactions in a bid to attract more clients who are eager to limit physical interaction during the pandemic. For example, the Paga mobile payment company allowed merchants to receive payments from Paga customers for free,[33] while PalmPay waived fees for transfers from its account holders to Nigerian banks.[34]

2. Some DFS providers in West Africa have also rolled out new products to meet the needs of the market during the pandemic. For example, in partnership with Visa Incorporated, Flutterwave (a fintech company based in San Francisco and Lagos) announced a new platform, Flutterwave Store. This is essentially a portal for African SMEs to create e-commerce shops to enable online selling. Other FSPs, such as PalmPay, have launched a support fund that offers direct payments to customers infected with COVID-19. The Nigerian digital bank Kuda, in partnership with the Lagos Food Bank, has rolled out a program to distribute free food and other essentials across Lagos State during the lockdown. Access Bank in Nigeria has recently introduced a Dual Transaction Service that enables debit cards to double as a credit card. To reduce commissions on remittances, Ghana's Zeepay, in partnership with the global fintech company Clear Junction, is set to launch a platform to facilitate the transfer of remittances from Europe to Africa.[35]

3. With the pandemic-driven pressure on Africa's banking system growing and higher debt defaults imminent,[36] many FSPs are lending less, and many more are rolling out disaster recovery lending strategies in a bid to salvage loans already extended to clients. Nigerian fintechs such as Branch, Carbon, and Kiakia are restructuring loans for customers with good credit history.

4. Although MM transactions in West Africa have dramatically increased in volume during the COVID-19 pandemic, the danger of contracting and spreading the virus as MM agents undertake cash-in/

cash-out transactions for clients remains a threat. MM operators and West African governments have scaled up public education about preventive health measures to be undertaken at these contact points.[37]

Conclusion

There is an urgent need in West Africa to implement timely policy responses to mitigate the impact of the COVID-19 pandemic. Even more critical is the need to seize the opportunities presented by COVID-19 to drive development initiatives that seem feasible under the circumstances. The era of social distancing presents a unique ecosystem to drive forward the sub-region's financial inclusion effort, with DFS at its core. A few West African countries are making admirable progress in this regard, but others with relatively underdeveloped DFS markets could better seize the opportunity by introducing adaptive financial regulations. West African countries should, however, be mindful of the new form of financial exclusion that has seen digitally constrained individuals left out of such initiatives.[38] It is also crucial that the sub-region's countries introduce measures to curtail DFS-related fraud and scams—which have been on the ascendency during the pandemic.[39]

COVID-19 has opened a world of limitless opportunities for FSPs, especially DFS operators, across West Africa. By scaling up innovations to onboard the sub-region's largely unbanked population, DFS providers are capitalizing on shifts in the financial services market while simultaneously contributing toward the fight against COVID-19.

A concerted effort by West African financial regulators and DFS providers can boost DFS adoption during the pandemic, which would not only strengthen the financial capability of the sub-region's citizens, but also reduce the risk of the spread of COVID-19 and prove essential to managing future pandemics.

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