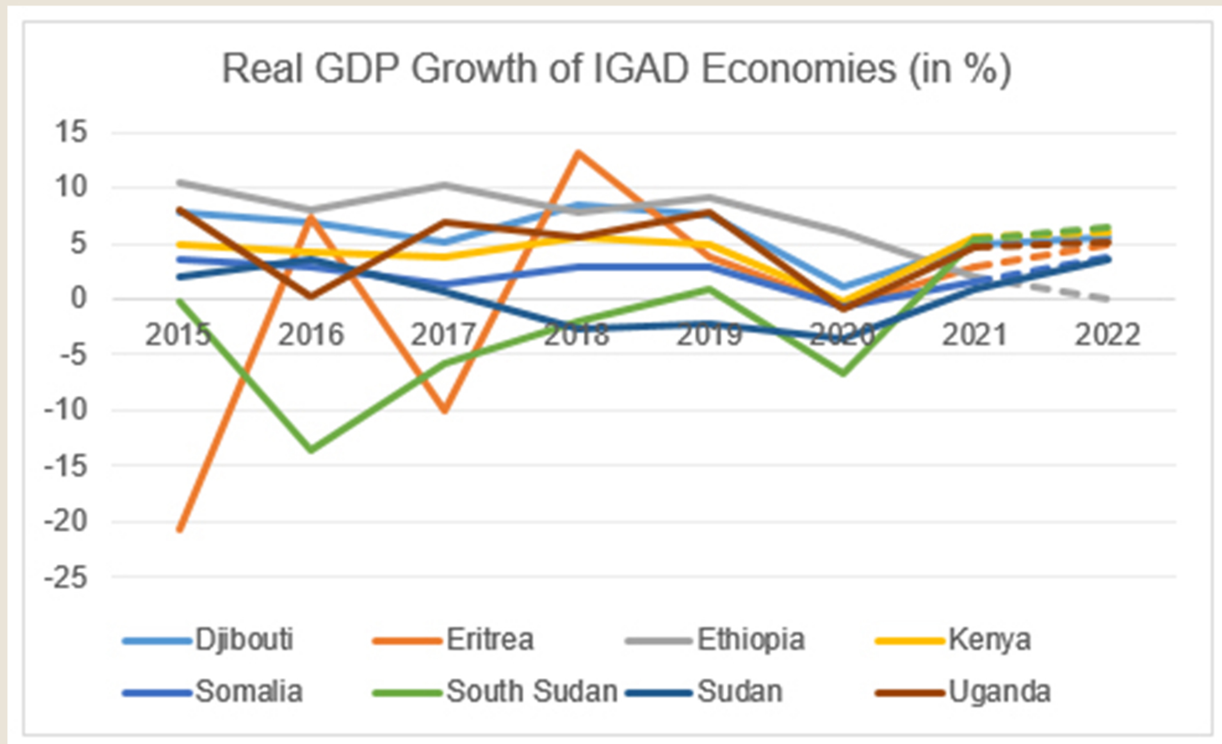
The Horn Economic and Social Policy Institute

Annual HESPI Report on IGAD Economies

Macroeconomic Performance of IGAD Economies and the State of Digital Financial Services



November, 2021
Addis Ababa, Ethiopia

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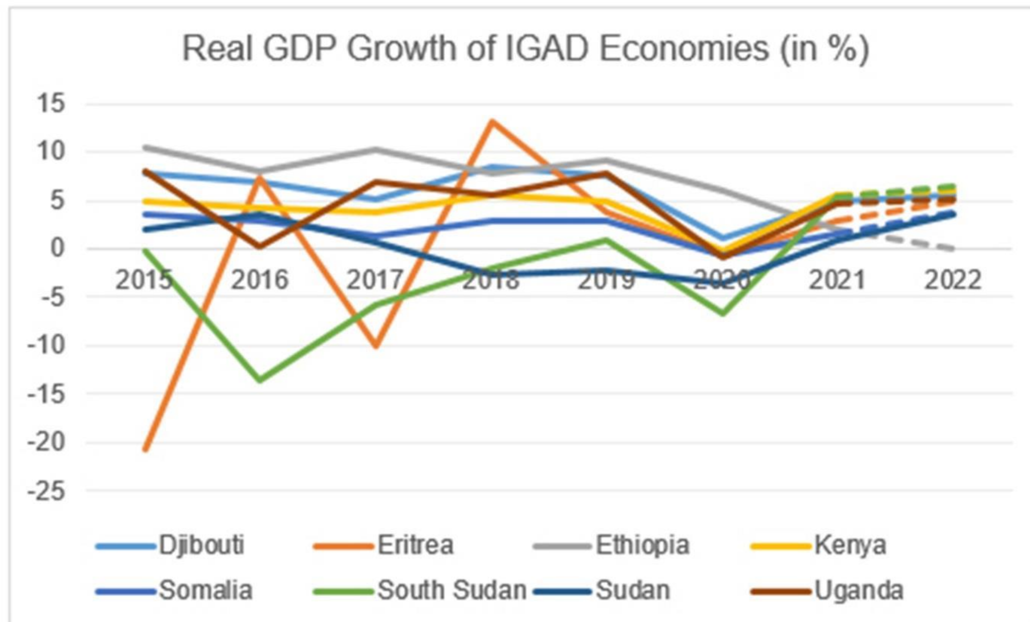

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Acronyms

AFI	Alliance for Financial Inclusion
AFPI	Africa Financial Inclusion Policy Initiative
ATA	Agricultural Transformation Agency
DFS	Development Financial Services
EFY	Ethiopian Fiscal year
FSD	Financial Sector Development
FISF	Financial Inclusion Support Framework
GDP	Gross Domestic Product
GPFI	Global Partnership for Financial Inclusion
GTP II	Growth and Transformation Plan II
HoA	Horn of Africa
ICT	Information and Communication Technology
IGAD	Intergovernmental Authority on Development
IICFI	Inter-Institutional Committee of Financial Inclusion
IMF	International Monetary Fund
MFIs	Micro Finance Institutions
MNOs	Mobile Network Operators
MSMEs	Micro, Small and Medium Enterprises
NGOs	Non-Government Organizations
NBE	National Bank of Ethiopia
NFIS	National Financial Inclusion Strategy
OECD	Organization for Economic Cooperation and Development
PSNP	Productive Safety net Program
SACCOs	Savings and Credit Cooperatives
SSA	Sub Saharan Africa
UNCDF	United Nations Centre for Financial Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organizations
WDI	World Development Indicators
WEO	World Economic Outlook

Preface

The Inter-governmental Authority for Development (IGAD) regional economic community for the countries of the Horn of Africa (HoA)[1] was hit by the COVID-19 pandemic in addition to the region's recent and prevalent challenges of shocks such as conflict, recurrent drought/floods, environmental degradation and locust invasion. Thus, while many of the countries have registered strong and robust economic growth over the last decade or so and improvements in the Sustainable Development Goals (SDGs), the region suffered contraction in GDP and reversal of progress since the Pandemic.

Access to affordable financial services has been widely acknowledged among policy makers and development partners alike as critical for 'poverty reduction and economic growth as well as to increase opportunities and resilience for the poor, especially women and other vulnerable groups. Digital finance is increasingly being viewed as an important tool to achieve financial inclusion. A vast majority of people have been effectively excluded from financial services due to various factors hampering or blocking their access and the need to address such exclusion has long been recognized. But, progress has been slow. Advances in digital technology have, however, created renewed hope; such technologies offer those excluded affordable ways to save, make payments, get small loans, send remittances or buy insurance (GPFI 2016). Innovation and advances in technology such as mobile phones, the internet, and other digital technology are making it possible to avail low-cost and convenient financial services to all those who need and have access to them.

This report thus picked on the theme of digital technology for financial inclusion in the HoA for some detailed investigation. The report also provides an overview of the macroeconomic performances and prospects amid the COVID-19 pandemic in the HoA countries.

The macroeconomic review covers some key indicators to see trends overtime and compare developments across countries. In 2020, the region as a whole experienced contraction in GDP due to the COVID-19 pandemic with significant variation across countries; Somalia, South Sudan, Sudan and Uganda experienced GDP contraction; while Ethiopia had a growth rate of around 6% and real growth also slowed down in Djibouti and Kenya in 2020 **[?]** . Pandemic related decline in revenues and rise in expenditures led to growing domestic fiscal balances and in all countries.

All countries in the region sustained trade deficit since 2015. Current account balance in the region largely mirrors the trend in trade balance. While it narrowed in Ethiopia, Uganda and Djibouti experienced a widening current account deficit during 2016-2020. Kenya on the other hand sustained a stable current account deficit. FDI flow to the region has been on the rise during 2015-2019, Ethiopia, Kenya and Sudan being the highest recipients. ODA as a share of GNI remained below 6% for most of the countries during 2015-2019 except that of Somalia which stood at an average of 34.2%. Following the lifting of sanctions in 2018, ODA's share of GNI in the Sudan more than doubled (from 1.9% in 2017 to 5.3% in 2019.

[1] (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan and Uganda)

Most countries in the region maintain very low foreign currency reserves. Pandemic related decline in revenue and rise in expenditures and the deteriorating external accounts led to growing domestic and external debt. In terms of external debt, only Uganda was in a low risk category in 2019. Kenya remained a high risk country, while Ethiopia, Somalia and Sudan were in debt distress during the same year. Covid-19 put additional pressure on debt sustainability necessitating recourse to the debt service suspension initiative (DSSI) by the WB and IMF, benefiting Djibouti, Ethiopia, Kenya and Uganda.

The thematic part of the report looks at the strategies, institutional frameworks and initiatives being pursued to advance financial inclusion and the status, challenges and prospects of digital financial inclusion in four IGAD countries, namely Ethiopia, Kenya, Somalia and South Sudan[2]. Kenya achieved 86% financial inclusion among its adult population, largely attributed to digital financial services in which it has become the leader not only in the region but also globally. Somalia is another success story of digital technology driven financial inclusion in the region in the absence of deliberate government strategy to advance digital financial services largely on account of innovation by unregulated private financial services entities. Financial inclusion in Uganda reached 58% in 2018, largely due to digital financial services. In Ethiopia, with the recent expansion in coverage of telephone and internet access, subscribers of mobile phones and internet, reduction of tariffs, and introduction of mobile wallet have created potential for faster financial inclusion. However, actual usage still remains low.

[2] Lack of data precluded coverage of all IGAD member countries.

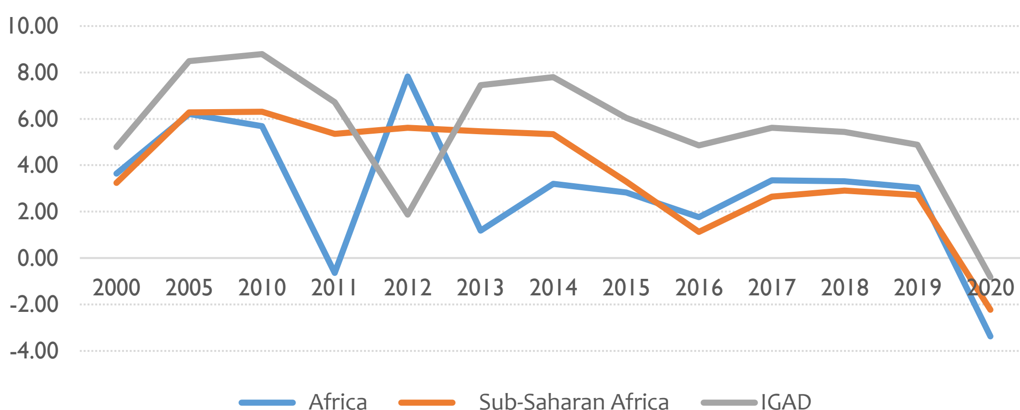
Part I:

Macroeconomic Performance and Prospects amid the global COVID-19 pandemic

1. Economic growth

In recent years, IGAD economies had registered relatively strong annual GDP growth even higher than the SSA averages. However, the COVID-19 pandemic seems to have adversely impacted all the economies. Over the last decade excluding the COVID year, IGAD economies as a whole grew at higher rate than the SSA and the African continent. As can be seen below, IGAD on average grew by close to 6% per year between 2010 and 2019; while SSA and the African continent as a whole grew by 4.1 and 3.1 per year respectively during the same period. The COVID-19 pandemic resulted in GDP contraction in IGAD but less severe compared to SSA and the African continent as a whole.

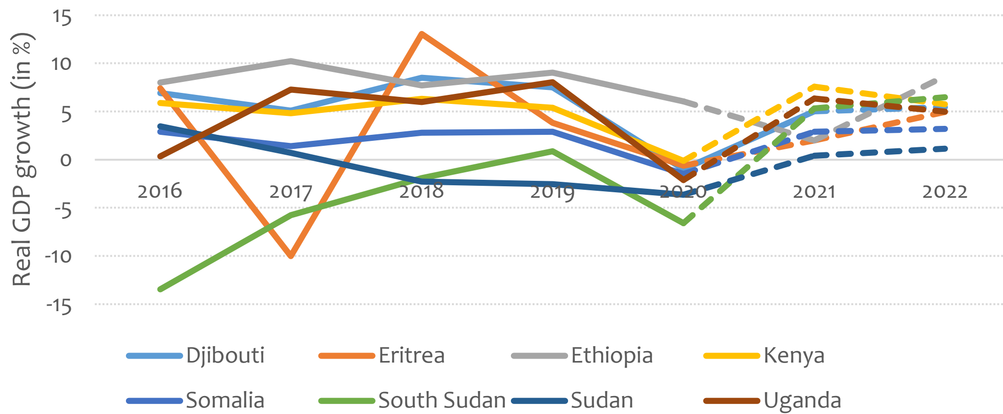
Figure 1.1: Regional real GDP growth (in %)



Source: UNCTADstat (2021)

At the country level, there exists variation in terms of real GDP growth. In 2020, all IGAD countries except Ethiopia experienced GDP contractions. South Sudan, the oil dependent economy, saw the largest contractions of more than 6% in 2020 following COVID-19. On the other hand, Ethiopia, which had one of the fastest GDP growth for more than 15 years since 2004 registered GDP growth of 6.5% (IMF, 2021). Ethiopia's GDP growth was relatively strong amid the global economic slowdown and disruptions in global supply value chains. This is also registered amid the political instability in the Northern part of the country. But it is worth noting that 6.5% GDP growth for Ethiopia is recorded to be the lowest in over a decade.

Figure 1.2: Real GDP growth (%)-2016 to 2020



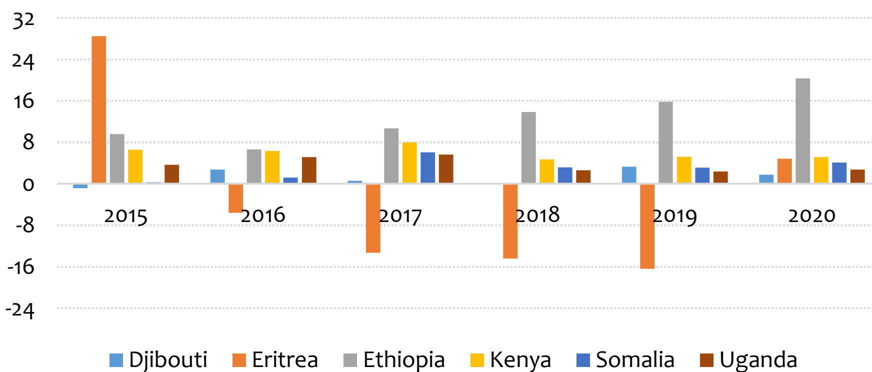
Source: IMF World Economic Outlook Database (2021)
Note: The dotted lines show IMF forecast (April 2021 forecasts)

As indicated by the IMF projections, all economies in the region are expected to recover from the economic slowdown in 2021 and 2022. All economies will have positive growth with the exception of Sudan. Sudan, which is in political transition, is expected to continue to experience contraction in 2021.

2. Price developments in the region

Eritrea, Kenya, Djibouti, Somalia and Uganda, had stable and single digit inflation over the last five years (as can be seen from the graph below). In 2016 to 2018, Eritrea had deflation then experienced single digit inflation in 2019 and 2020. Ethiopia, the fastest growing economy in the region for the past ten or so years, had registered above ten percent inflation in the last five years. In 2019, Ethiopia's overall inflation reached around 20%, food inflation being much higher at around 25%. Such persistent inflation affected urban residents and low income households disproportionally. Previous empirical works show that expansionary fiscal policy and the supply of money are the major contributing factors behind the recent inflation in Ethiopia. Supply side factors also played role for the rising inflation.

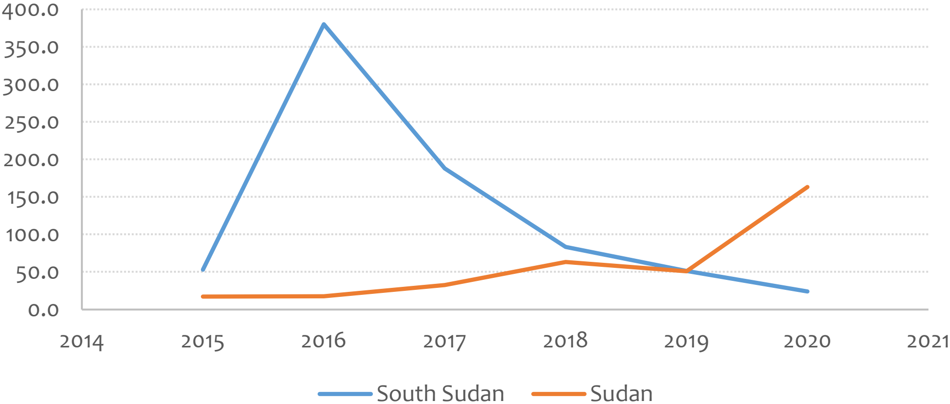
Figure 1.3: Annual Inflation, consumer prices (%age change) for IGAD Economies-2016 to 2020



Source: IMF World Economic Database and Somalia IMF Country Reports

South Sudan, for the last couple of years, has had hyperinflation partly owing to the country's political instability and the subsequent appreciation of the South Sudanese pound against major international currencies. But in the last two years (in 2019 and 2020), inflation has relatively stabilized at around 51% and 24% respectively to 40%. This, however, is still very high by the region's standard. Similar trend is now being observed in the Sudan following the country's political transition. In 2019 and 2020, Sudan's headline inflation was more than 50% and 160% respectively%. This has been driven by the subsequent devaluation of the country's currency. In the last couple of years, IMF and World Bank supported programs have led the Transitional government to adopt economic reforms including devaluation of the Sudanese pound. This has contributed to the recent hyper-inflation affecting the economy.

Figure 1.4: Annual Inflation for Sudan and South Sudan (%)-2015 to 2020



Source: IMF World Economic Database

2.1. Government fiscal positions amid COVID-19

Domestic resource mobilization has been a challenge for governments in the region. There has been recent efforts by international organizations including the World Bank and the IMF to improve countries' administrative capacity and policy design. Yet the IGAD region as whole lags far behind even relative to the SSA average in terms of tax to GDP ratio with the exception of Kenya which is relatively well above the SSA averages. So most of the countries in the sub-region rely heavily on external aid, debt financing. This has exposed the countries for external shocks and contributed to rising and unsustainable debt.

Table 1.1: Government Revenue and Expenditure for IGAD Economies (% of GDP)-2016 to 2020

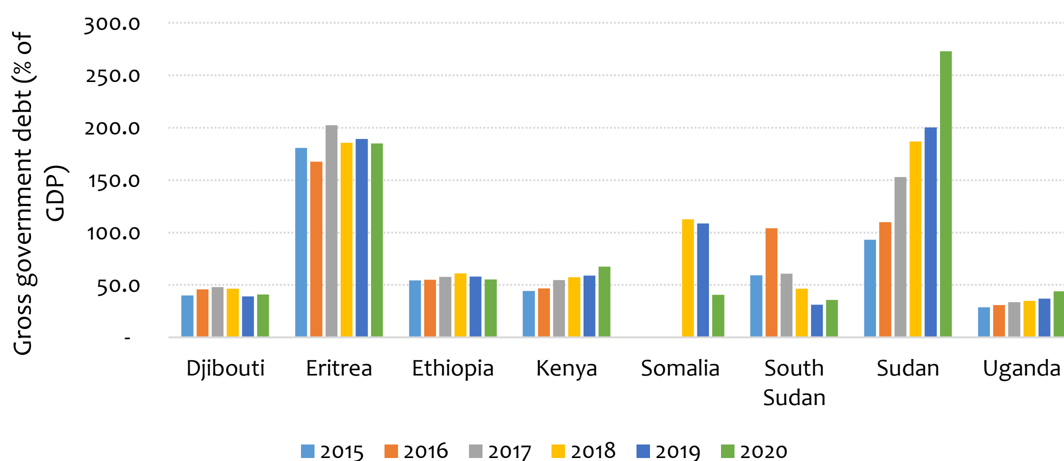
Government Expenditure (% of GDP)					
	2016	2017	2018	2019	2020
Djibouti	28.1	25.9	22.5	22.5	20.6
Eritrea	42.8	27.4	33.3	36.4	36.5
Ethiopia	18.0	16.1	15.4	14.5	14.8
Kenya	26.1	25.6	25.4	25.7	25.0
Somalia	4.1	6.6	5.7	6.9	7.0
South Sudan	33.0	32.5	46.8	38.9	41.5
Sudan	13.1	16.7	18.7	10.8	14.2
Uganda	15.5	16.2	18.4	21.2	19.7

Government Revenue (% of GDP)					
	2016	*2017*	*2018*	*2019*	*2020*
Djibouti	*23.6*	*23.1*	*21.7*	*21.2*	*18.6*
Eritrea	*36.8*	*31.6*	*31.7*	*31.4*	*31.9*
Ethiopia	*14.7*	*13.1*	*12.8*	*11.7*	*11.5*
Kenya	*18.2*	*18.2*	*17.7*	*17.3*	*16.9*
Somalia	*6.0*	*5.7*	*6.8*	*12.6*	*10.0*
South Sudan	*36.3*	*31.9*	*46.8*	*35.6*	*45.1*
Sudan	*6.9*	*8.9*	*7.8*	*4.8*	*11.1*
Uganda	*12.7*	*13.2*	*13.6*	*13.6*	*14.1*

Source: IMF World Economic Outlook Database (2021)

Due to the weak domestic resource mobilization and heavy reliance on debt financing especially in recent years, the region's public external and domestic debt has grown substantially. This has been exasperated by the global pandemic which adversely impacted tax and non-tax revenue collections and led to forced higher financing of health and other social services.

Figure1.5: Gross government debt of IGAD Economies (% of GDP)-2018 to 2020



Source: IMF World Economic Outlook Database (2021) and Somalia IMF Economic Report (2020)

From the sub-region, Eritrea and Sudan (as can be seen from figure 1.5 above) have significantly high and unsustainable debt (above 200% of GDP for Sudan and 175 to 190% for Eritrea). Such debt burden is unsustainable for countries with relatively weak domestic resource mobilization. Even Kenya and Ethiopia have very high debt of above 50%.

Djibouti, South Sudan and Uganda have relatively lower debt (as % of GDP) by the regional standard; Pandemic related decline in revenue and rise in expenditures led to growing domestic and external debt. Somalia's post HIPC relief debt is considerably much lower than once the completion point is reached. However, some of these countries seem to experience increasing rate in the last two years and are expected to accumulate more debt following the pandemic.

2.2. Resource GAP in the region

Several IGAD economies have had relatively strong investment at near 30% of GDP (Djibouti, Ethiopia and Uganda) in the last five years. The other countries for which data are available invested at ratios of single digit or lower double digits as shown below for Eritrea, south Sudan and Kenya. Despite the strong investment that some countries have registered over the last couple of years, national saving remains way below the required level (creating saving- investment gap).

Table 1.2: IGAD Economies' Gross national savings & total investment (% of GDP)-2016 to 2020

Gross National Savings (% of GDP)					
	2016	2017	2018	2019	2020
Djibouti	19.8	19.9	40.8	32.4	24.4
Eritrea	32.6	18.4	16.1	17.6	21.5
Ethiopia	30.2	32.3	29.9	26.6	27.1
Kenya	10.0	9.3	8.6	8.0	8.0
South Sudan	3.9	10.0	-2.7	12.7	6.1
Sudan	1.1	0.5	-5.8	-7.5	-0.5
Uganda	20.0	20.0	21.1	18.2	18.0

Total Investment (% of GDP)					
	2016	2017	2018	2019	2020
Djibouti	24.6	5.6	27.8	29.5	26.3
Eritrea	8.7	2.9	4.0	7.0	7.6
Ethiopia	38.4	34.2	35.3	30.8	30.3
Kenya	17.2	15.0	14.4	12.8	13.4
South Sudan	7.6	8.5	20.6	17.2	18.0
Sudan					
Uganda	24.7	25.7	26.8	27.3	26.4

Source: IMF World Economic Outlook Database (2021)

Comparatively, Djibouti's national saving was above the country's investment. Eritrea has one of the lowest investment rate in the region with below ten percent of GDP. However, its savings rate is strong, way above ten percent of GDP.

2.3. External sector developments

i. Trade Balance

All the countries in the region have sustained trade deficit during 2015-2019, except Djibouti which experienced surplus in the last few years (see Table 1.3). Somalia has had by far the largest trade deficit share of GDP, accounting for an average of 80% of GDP during this period. On the other hand, Uganda has had the lowest trade deficit, accounting for an average of 5% of GDP. Ethiopia's trade deficit has narrowed from 19.3% of GDP to 9.8% of GDP, mainly because exports have shown improvement while imports have stabilized. The remaining countries have experienced a stable trade deficit over this period.

Table 1.3: Trade Balance in IGAD Economies (% of GDP), year 2016-2020

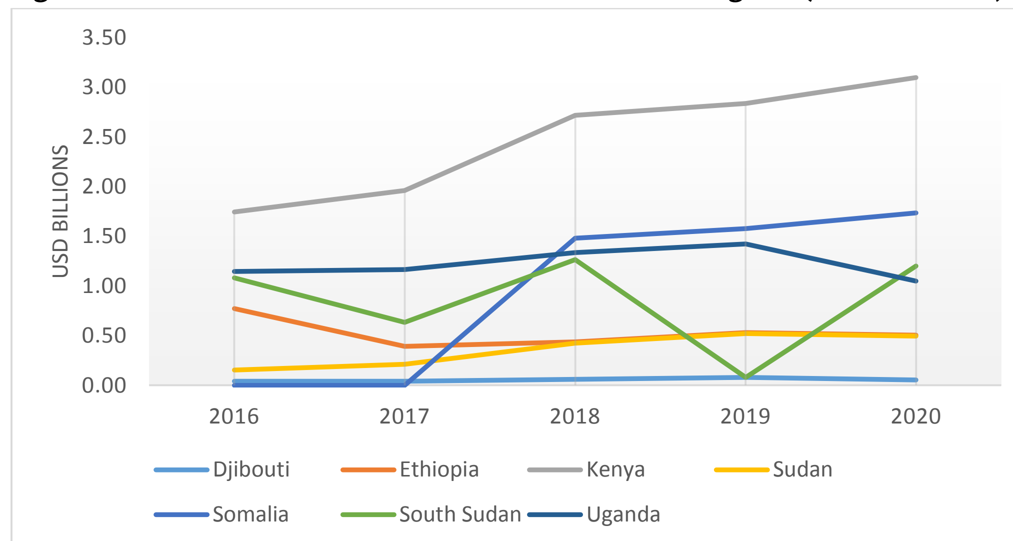
	2016	2017	2018	2019	2020
Djibouti	-8.75	-8.67	10.14	8.99	13.11
Ethiopia	-19.27	-15.84	-14.45	-12.94	-9.84
Kenya	-9.05	-10.93	-9.80	-9.34	-8.90
Sudan	-5.57	-5.96	-6.56	-9.24	0.30
Somalia	-74.48	-80.50	-84.83	-88.65	-91.14
Uganda	-6.38	-3.51	-6.47	-5.17	-4.67

Source: WDI (2020)

ii. Personal Remittances

Personal remittances has shown little change during 2016-2020 for countries in the region except Kenya where it has nearly doubled from USD 1.7 billion in 2016 to USD 3.1 billion in 2020 (see Figure 1.6). Growth of remittances in Kenya is believed to be a result of the financial innovations (e.g. mobile money accounts) in the country that allowed Kenyan Diaspora more convenient channels for their transactions. The significant improvement in personal remittances in Kenya continued in to the year 2020 although Covid-19 took a heavy toll on diaspora earnings.

Figure1.6: Personal remittance inflows to the IGAD sub-regions (in USD Billions)



Source: WDI (2020)

iii. Current Account Balance

Current account balance in the IGAD countries is largely driven by their trade balance. Sudan and Uganda in that order have experienced widening current account deficit as share of their GDP (see Table 1.4). Eritrea sustained current account (CA) surplus throughout 2016-2020, while Djibouti and South Sudan experienced CA deficit and surplus during the same period. Ethiopia's CA deficit has narrowed, mirroring the trend in its trade deficit. Kenya on the other hand experienced a stable current account balance as share of GDP during 2015-2019.

Table 1.4: Current Account Balance of IGAD Economies (% of GDP), 2015 to 2020

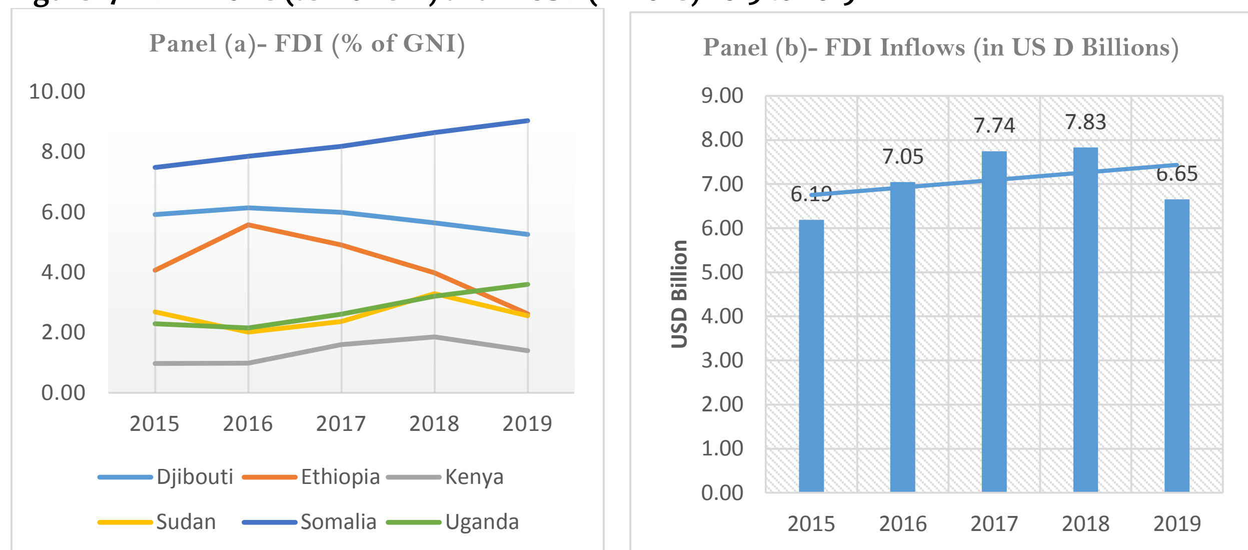
IGAD Countries	**2016**	**2017**	**2018**	**2019**	**2020**
Djibouti	-1.00	-4.81	14.23	13.48	10.82
Eritrea	15.32	23.96	15.44	12.07	10.65
Ethiopia	-9.23	-8.51	-6.52	-5.33	-4.58
Kenya	-5.83	-7.21	-5.75	-5.82	-4.78
South Sudan	15.84	-3.62	1.55	-23.27	-4.49
Sudan	-7.98	-10.24	-13.55	-16.17	-27.38
Uganda	-2.82	-4.79	-5.67	-5.71	-9.12

Source: WEO (2020) and WDI (2020)

iv. Foreign Direct Investment (FDI)

Foreign direct investment to the IGAD region has shown an increasing trend over the 2015-2019 period (See Figure 1.7, panel b). Ethiopia, Kenya and Sudan in that order have been the highest recipients of FDI during this period. FDI's share of GNI has been on the rise in Kenya, Somalia and Uganda during 2015-2019 (see Figure 1.7, panel a). The trend in Ethiopia is on a steep decline since 2016, arguably due to the rising political unrest during the same period. FDI to Kenya and Uganda on the other hand is on the rise during the same period, more than offsetting the decline in FDI to Ethiopia and Sudan, thus responsible for the positive trend for the region as a whole (see Figure 1.7).

Figure1.7: FDI inflows (as % of GNI) and in USD (Billions)-2015 to 2019

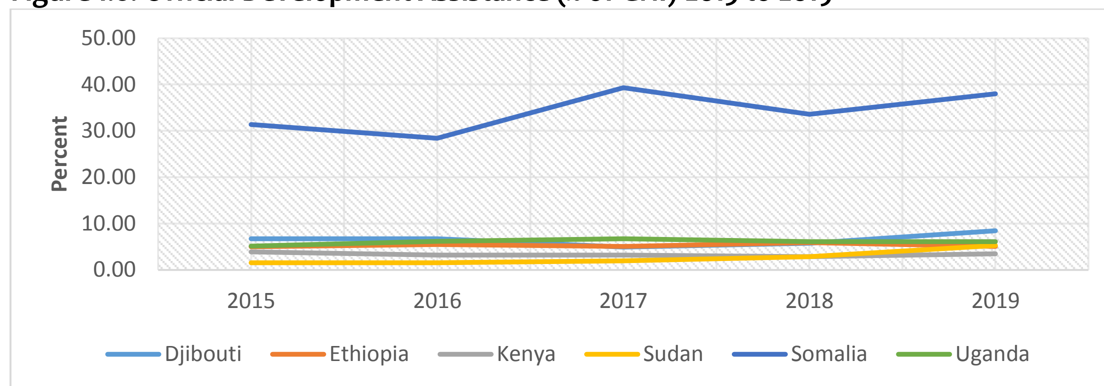


Source: WDI (2020)

v. Official Development Assistance (ODA)

Net ODA includes concessional loans and grants provided by development partners. ODA as a share of GNI for Somalia is by far the highest of all countries in the region accounting for an average of 34.1% of GNI during 2015-2019 (see Figure 1.8). ODI's share of GNI in Ethiopia, Kenya, Uganda and Sudan represent less than 6% throughout this period. Somalia's heavy reliance on external financing is understandable as it's in the process of emerging out of a civil war and putting together a functioning government and nascent public finance institutions. After Sudan's two-decade old sanction was lifted in 2018, it started to tap in to external financing from the international development community. ODA as share of GNI to Sudan more than doubled from 1.9% in 2017 to 5.3% in 2019.

Figure 1.8: Official Development Assistance (% of GNI)-2015 to 2019

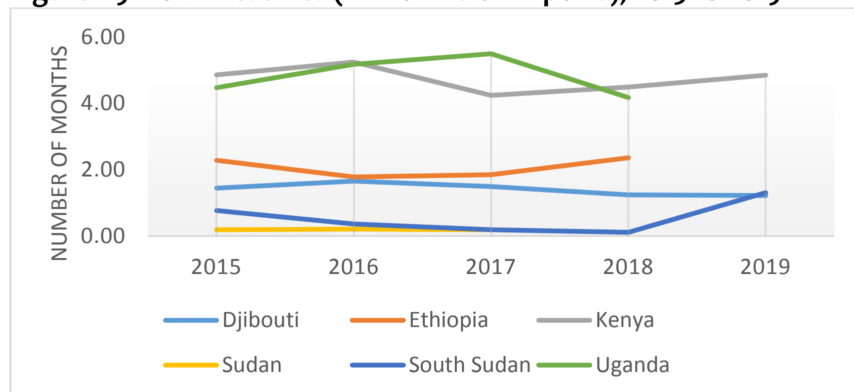


Source: WDI (2020)

vi. Foreign Currency Reserve position

The optimal foreign exchange coverage depends on the level of economic development of a country, the exports share of GDP and the exchange rate regime. The primary focus of maintaining foreign exchange reserve adequacy is to buffer the country from sudden capital flow reversals. As such this applies mostly to developing economies and partly to emerging economies, with less relevance to the advanced economies (Chitu et al., 2019). As a rule of thumb, a country needs to have enough reserves to finance at least 3 months of the following year import. However, according to IMF (2018), the optimal forex coverage for countries that tightly manage their foreign exchange ratios to imports is a reserves cover of 5.8-8.9 months of import. As Figure1.9 below shows only Kenya and Uganda, registering 4-5.5 months of import forex reserve Djibouti and Ethiopia met the minimum three months threshold during some years in 2015-2019. Sudan and South Sudan had the lowest reserve during most of the specified period.

Figure 1.9: Total Reserves (in Months of Imports), 2015 to 2019



Source: WDI (2020)

vii. External Debt Sustainability and COVID-19

Debt sustainability framework (DSF) jointly designed by the World Bank and the IMF categorizes countries in to three policy performance categories based on the World Bank's Country Policy and Institutional Assessment (CPIA) index. These are 'weak policy', 'medium policy' and 'strong policy'.

Debt sustainability thresholds for 'weak policy' categories are lower than those for the 'medium policy' and 'strong policy' categories as shown in Table 1.5 below.

Table 1.5: Policy Performance based debt-sustainability thresholds

Policy Performance Categories	External debt as % of		Debt service as % of
	Exports	GDP	Exports
Weak policy	100	30	15
Medium Policy	150	40	20
Strong Policy	200	50	25

Source: IMF (2021)

Table 1.6 shows the debt-carrying capacity classification of IGAD countries in 2019 and three external debt threshold indicators. According to the DSF criteria, only Uganda remained within the threshold of all the three debt-sustainability indicators in 2019. The other countries breached the threshold of at least for one indicator. As such, Uganda remained a low risk country in terms of external debt distress measures. Kenya remained high risk in 2019, while Ethiopia, Somalia, and Sudan were in debt distress because they were experiencing difficulties in servicing their debt in addition to breaching one or two debt sustainability indicators.

Table 1.6: External Debt Sustainability Indicators for IGAD Economies (in 2019)

IGAD Countries	Debt-Carrying Capacity (2019)	External Debt Stock (% of GDP)	External Debt (% of Export)	Total Debt Service (% of Export)
Djibouti	Medium	0.77	33.88	1.52
Ethiopia	Medium	0.29	308.32	28.94
Kenya	Medium	0.36	227.84	38.20
Sudan	Weak	0.69	391.60	3.75
Somalia	Weak	1.14	468.15	0.05
Uganda	Strong	0.40	98.87	4.85

Source: WDI (2021), Various IMF staff reports for 2019 article IV

IGAD economies were among the hardest hit by the Covid -19 pandemic, with significant pressure on their debt sustainability. The Pandemic caused substantial decline in commodity prices, merchandise exports, tourism, remittances, and FDI, resulting in drying-up of government revenue. On the other hand, there was an increase in spending needs in health, safeguarding livelihoods and rescuing SMEs. In an effort to buffer the impending fiscal shocks, African governments sought debt relief from multilateral and bilateral donors. In response, the World Bank (WB) and the International Monetary Fund (IMF) coordinated G20 countries to establish Debt Service Suspension Initiative (DSSI) to help countries concentrate their resources on fighting the pandemic and protecting livelihoods. Eligible IGAD countries benefited from temporary suspension of debt-service payments owed to bilateral creditors. The suspension period, originally set to end on December 31, 2020 has been extended by one year (World Bank, 2021). Table 1.7 below summarizes the eligible IGAD economies to participate in DSSI, their risk of external debt distress and potential benefit in terms of DSSI saving.

Table 1.7: IGAD Economies' DSSI participation and it's estimated saving

Country	DSSI Participation?	Risk of External Debt Distress	Potential DSSI Saving (May 2020-Dec 2021)	
			% of GDP	USD Millions
Djibouti	Yes	High	5.7	189.4
Ethiopia	Yes	High	1.2	1184.5
Kenya	Yes	High	1.9	1831.2
Somalia	No	In distress	0.1	4.6
South Sudan	No	High		
Uganda	Yes	Moderate	0.9	301.4

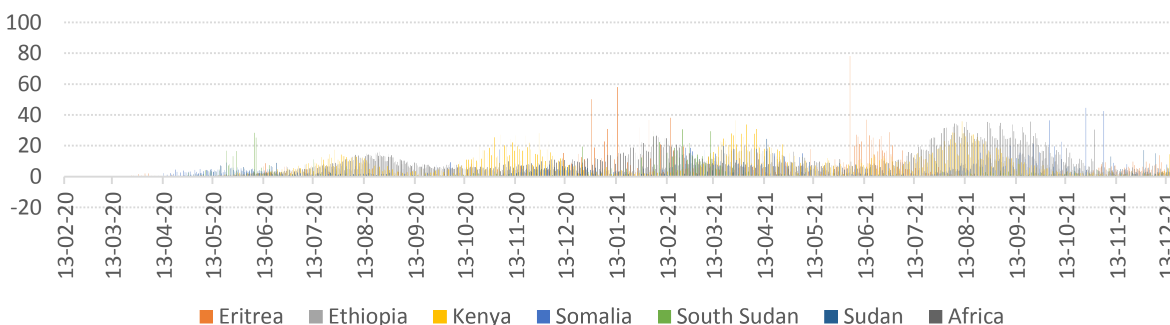
Source: World Bank Brief (2021).

In July 2021, the IMF executive board approved a general allocation of Special Drawing Rights (SDRs) equivalent to USD 650 billion to boost global liquidity and revamp economic recovery amid the global pandemic. As SDRs are shared based on individual countries' quotas in the IMF, however, the distribution is uneven. African countries have received only USD 33 billion in total. IGAD economies, having a combined quota of 0.473% in the IMF were allocated to receive about USD 3 billion of the total SDR.

2.4. COVID-19 and economic recovery in the IGAD Region

The first official confirmed cases of COVID-19 was reported in March 2020 in the IGAD region. Since then the pandemic has spread in the region affecting close to 900, 000 people as of Dec 2021 (see Figure 1.10). Indeed the confirmed COVID-19 cases in the region is relatively low compared to other region such as Europe, Americas. As can be seen from the figure 1.10 below, the daily infection rate per million people is low for all the countries. However, the impact of the pandemic, the widespread containment measures in the region and beyond has hugely impacted the region's economy. Since the region is a commodity exporting region, the global disruption in the supply chain following the lockdown measures in the region's trading partners such as China, Europe and the Middle East adversely impacted the economies.

Figure 1.10: Confirmed COVID-19 cases per day per 1 million people in the IGAD region



Source: COVID-19 Data Repository by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University

In response to the economic impact of the pandemic and the containment measures, governments in the region took various fiscal and monetary policy measures to stimulate their economies. But due to

limited fiscal space, IGAD countries have not been able to inject resources at a level enough to withstand the economic consequences of the pandemic. The measures put in place in the region vary from country to country. The following section presents the various fiscal and monetary measures governments took during the peak of the pandemic.[3]

Djibouti:

- In response to the pandemic, the government of Djibouti increased its health care spending, provided supports to firms impacted by the pandemic, and also provided food vouchers to those vulnerable households. In addition to that, the government revised its budget for 2020 by around 2.6%; and also increased the budget for 2021 by 0.6%.

Eritrea:

- The Eritrea government introduced strong lockdown measures in April 2020. Apart from the lockdown measures, the government has not introduced any fiscal or monetary measures.

Ethiopia:

- Unlike the other countries, Ethiopia did not implement a full lockdown even during the early days of the pandemic. It only introduced containment measures including declaring a six-month state of emergency in April 2020. Hence the measures include closure of land borders, banning inter-regional public transport and public gatherings, closure of schools, nightclubs. And the authorities postponed the national election from August 2020 to June 2021.
- The Council of Ministers approved measures to support firms and employment. These include forgiveness of all tax debt prior to 2014/2015, a tax amnesty on interest and penalties for tax debt pertaining to 2015/2016-2018/2019, and exemption from personal income tax withholding for 4 months for firms who keep paying employee salaries despite not being able to operate due to Covid-19.
- The central bank provided 15 billion birr of additional liquidity to private banks to facilitate debt restructuring and prevent bankruptcies. It has also provided the Commercial Bank of Ethiopia with an ETB 16 billion 3-year liquidity line and has injected liquidity into hotel and tourism sectors through commercial banks.

Kenya:

- The government of Kenya introduced various measures aiming at containing the spread of the virus in the country. This include social distancing and heightened restrictions in most non-essential social spaces to gatherings; encouragement of teleworking where possible; establishment of isolation facilities; declaration of night curfew and limitations on public transportation passenger capacity.

[3] All the details of measures for each country are from the IMF COVID-19 policy response measures

- As part of the FY2019/20 budget, the government initially earmarked Ksh40 billion (0.4 percent of GDP) for COVID-related expenditure, including health sector (enhanced surveillance, laboratory services, isolation units, equipment, supplies, and communication); social protection (cash transfers and food relief); and funds for expediting payments of existing obligations to maintain cash flow for businesses during the crisis.
- The central bank lowered its policy rate by 100 bps to 7.25 percent; lowered banks' cash reserve ratio by 100 bps to 4.25 percent; increased the maximum tenor of repurchase agreements from 28 to 91 days; and announced flexibility to banks regarding loan classification and provisioning for loans that were performing on March 2, 2020, but were restructured due to the pandemic.

Somalia:

- In 2020, the Somalia Central government introduced a three-month tax holiday on some specific basic commodities (including rice), reduced consumption tax on some additional basic goods by 50 percent and lifted restrictions on imports of rice
- The Central Bank released funding, of initially $2.9 million, for lending support targeted at medium and small enterprises through commercial banks.

South Sudan:

- The government allocated a COVID-19 fund of USD8.0 million, of which USD5.0 million was earmarked to the Ministry of Health to combat the pandemic.
- In April, 2020, the Bank of South Sudan (BSS) cut the Central Bank Rate by 2 percentage points, from 15 percent to 13 percent, and reduced the Reserve Requirement Ratio from 20 percent to 18 percent. In November 2020, the Bank of South Sudan increased the Central Bank Rate to 15 percent and the Reserve Requirement Ratio to 20 percent, fully reverting the earlier monetary policy loosening in response to the pandemic.

Sudan:

- Sudan is one of the few countries which did not take much fiscal or monetary measures to stimulate the economy due to the tight fiscal situation the country was following the political upheaval.

Uganda:

- Uganda is one of the countries which implemented a series of lockdown measures.
- In FY19/20, the government introduced two supplementary budgets to increase the spending envelope for critical sectors and vulnerable groups by about US$270 million (0.7 percent of GDP), of which around US$76 million (0.2 percent of GDP) is estimated to have been executed. In addition, Covid-19-related spending was further increased by US$30 million (0.1 percent of

GDP) through budget reallocation, while tax measures in response to COVID-19 contributed to the revenue shortfall by close to US$70 million (0.2 percent of GDP).

Given the scale of the economic shock the region is going through, it will take time for the countries in the region to return to their pre-pandemic output trends. Public debt in IGAD has been on a steep rise, pushing their debt trajectories in to unsustainable territories. The extent of recovery in the region largely depends on the level of external support provided to the economies in the form of debt service relief.

The IGAD region requires significant financing to combat the pandemic and boost liquidity, which is key for a sustained and inclusive recovery. In addition to the Debt Service Suspension Initiative (DSSI), development partners need to extend additional support in the form of more flexible and concessional forms of financing.

Part II

Financial Inclusion and Digital Finance in the Horn of Africa (HoA): Status, challenges, and prospects

1. Introduction

Individuals, households and businesses conduct a range of financial transactions including saving, borrowing, effecting and receiving payments, and managing risks. They need appropriate financial products and services that suit their needs, conditions and preferences and are affordable. As the World Bank notes, "enhancing financial inclusion can improve resistance to shocks, boost productivity of firms, facilitate empowerment of marginalized groups, such as women and rural residents, and help reduce poverty" (World Bank, 2018: 4). Access to affordable financial services has been widely acknowledged by policy makers and development partners as critical for 'poverty reduction and economic growth as well as to increase opportunities and resilience for the poor, especially women' (World Bank, 2018: 4 and 2020: v). This thematic part of the 2020 Annual Report on IGAD economies looks at the status, challenges and prospects of digital financial inclusion in four IGAD countries, namely Ethiopia, Kenya, Somalia and South Sudan.

2. Overview of financial inclusion in the HoA

2.1. Financial inclusion: concept and measurement

Financial inclusion:

Financial inclusion, according to the UN, refers to the "sustainable provision of affordable financial service that bring the poor into the formal economy" (Ozili 2018: 331). Beck, Demirguc-Kunt and Levine (2007) used a somewhat broader definition as "the use of formal financial services by the poor" (see Ozili 2018:....). Others infer the essence of financial inclusion by defining financial exclusion as "the lack of access by certain segments of society to a suitable, low-cost, fair and safe financial products and services from mainstream providers" (Damodaran 2013: 54[4]). The World Bank defines financial inclusion as: "the uptake and usage of a range of appropriate financial products and services by individuals and MSMEs [micro, small, and medium enterprises], provided in a manner that is accessible and safe to the consumer and sustainable to the provider" (World Bank, 2018: 5).

Lack of access to financial services is believed to have excluded billions of people from 'opportunities to improve their lives' (GPFI 2016, 1). The UN asserts that financial exclusion of households "hampers [their] ability to earn, protect themselves in times of crisis, and to build for the future"; lack of access to finance by small- and medium-sized enterprises limits their ability to grow and thrive[5]. Financial

[4] Financial exclusion: Issues and challenges,

[5] https://www.unsgsa.org/about/financial-inclusion

inclusion is thus viewed as "an enabler and accelerator of economic growth, job creation and development. An inclusive financial system is increasingly seen as necessary to ensure broad-based growth and development. With greater financial inclusion those who were previously excluded will be able to "invest in education, save, and launch businesses", which contributes to poverty reduction and economic growth. Affordable access to and use of financial services helps families and small business owners generate income, manage irregular cash flow, invest in opportunities, strengthen resilience to downturns, and work their way out of poverty". The UN thus recognizes an inclusive financial system as essential infrastructure in every country with the purpose of helping "people and communities meet basic needs such as nutritious food, clean water, housing, education, healthcare, and more" (Ibid).

Benefits of financial inclusion:

Literature identifies a range of benefits of financial inclusion. These include providing possibility for households to save for the future, fostering stability in their personal finance and higher use of bank deposits thereby contributing to a more secure deposits base for banks in times of distress; provide opportunities to build savings, make investments and access credit; enable them to handle income shocks due to emergencies such as illness, loss of employment; reducing pro-cyclical risk – a substantial increase in the number of small savers increase both the size and stability of the deposit base, reducing their dependence on 'non-core' financing, which are volatile in times of crisis; improve stability of the deposit and loan basis in the financial system as the low income groups, are relatively immune to fluctuations in economic cycles; facilitate greater participation by different sectors of the economy in the formal financial system (Ozili 2018: 331). Dev (2006) argues that financial inclusion could be viewed both as a "business opportunity and social responsibility". According to (Masau, Muathe and Mwangi 2018) financial inclusion is expected to change the composition of savings and credit customers by increasing diversification, thus reducing credit risk and enhancing financial stability. However, beyond a certain level, financial inclusion may "expand to unfamiliar areas and un-creditworthy clients, posing a rise in credit risk, hence instability (Ibid: 3). This, however, is not an argument to put a limit on the extent of financial inclusion but to underpin the effort with policy options that address such risks.

Ensuring financial inclusion requires effectively reaching citizens, especially those that are currently unserved or underserved with financial products that suite their needs and preferences. Four dimensions are thus critical: diversity and appropriateness of the financial products, their accessibility (with ease and less cost[6]) and safety to the consumer, as well as commercial sustainability and viability of the products to the financial services providers. Product areas should include banking, microfinance, insurance/micro-insurance, pensions, payments, and savings). Accessibility and usage[7] should give due emphasis to range of providers and products to reach traditionally excluded groups

[6] This may include pervasiveness of outreach of financial institutions in terms of physical outlets (e.g. penetration of bank branches and agents), distance to reach them, etc.
[7] This may include volume of credits and deposits,

including rural areas, MSMEs, and informal sector workers, and vulnerable groups such as the poor, women, the youth and displaced persons/refugees.

For the benefits of financial inclusion to materialize, safe financial products are necessary. Hence, there is an important role for policy in areas of financial inclusion, which include financial access and usage, financial resilience (including savings, insurance, pensions for vulnerable groups – e.g. the poor, women, youth, rural people, etc.), financing for growth, responsible finance and finance infrastructure.

Digital finance and financial inclusion:

While achieving financial inclusion may take long, there is growing hope that digital technologies might do the trick, because, the argument goes, they offer those excluded affordable ways to save, make payments, get small loans, send remittances or buy insurance (GPFI 2016). Innovation and advances in technology such as mobile phones, the internet, and other digital technology are making it possible to avail 'low-cost and convenient financial services to all those who need them'. Adoption of a digital approach in the formulation of national financial inclusion strategies is thus considered as one of the key success factors. In fact, the G20 argues that ""in this decade, digital finance has already successfully improved access to finance by women, the poor, the young, the elderly, farmers, small and medium enterprises (SMEs) and other underserved customer segments in both G20 and non-G20 countries" (GPFI, 2010:i). There also appears to be a growing appeal of digital finance among policymakers as evidenced by the active promotion and expansion of digital technology.

Ozili (2018) defines digital finance as "financial services delivered through mobile phones, personal computers, the internet or cards linked to a reliable digital payment system". According to McKinsey (2016) on the other hand, digital finance refers to "financial services delivered via mobile phones, the internet or cards" (cited in Ozili 2018: 330). Gomber, Koch, and Siering (2017) use a wider definition that encompasses "new financial products, financial businesses, finance-related software, and novel forms of customer communication and interaction - delivered by FinTech companies and innovative financial service providers". Although a standard definition is lacking, there seems to be an emerging broad consencus in terms of what it includes; It "encompasses all products, services, technology and/or infrastructure that enable individuals and companies to have access to payments, savings, and credit facilities via the internet (online) without the need to visit a bank branch or without dealing directly with the financial service provider" (Ozili 2018: 330).

Inclusive digital financial services are defined to include "mobile money, online accounts, electronic payments, credit and insurance, a combination of them and newer fintech apps that reach people who were formerly excluded". Such financial services enable poor people to "store and increase savings,

cope with unexpected economic shocks, access social benefits more easily, and make investments in economic opportunities that can lead them out of poverty”[8] (UNSGSA et al 2018).

The benefits of digital finance accrue not only to the service users (both individuals and businesses) but also to providers of the service, the government and the economy. It increases access of users with ease, convenience and less cost; for example, users no longer need to visit financial institutions or be limited to working hours or involve paper work to get the service. It enables service providers reach citizens quickly, efficiently, and at less cost, thereby expanding their transactions and enhancing profits. It allows government to collect taxes with relative ease and less cost.

Digital financial services are believed to have a range of benefits for financial inclusion that include (International Telecommunication Union, 2016:1-2):

(i) Enabling poor people to store and manage value safely and with security; allowing payments in traceable and fast way.

(ii) Providing flexibility - It reduce costs and increase coverage of remittance transfers, making remittances of small amounts by the low income viable; enables remitters to ensure that funds sent are spent for intended purpose (e.g. for savings, health, education fees, or other types of targeted accounts); allows the “poor to pay for goods and services on lay-away, pay-as-you-go, or through other payment options that more closely match their ability to pay”.

(iii) Incentivizing saving by facilitating access and interface with savings products - digital payments create the opportunity to link poor people to automatic deposits, scheduled text reminders, and positive default options that help people overcome psychological barriers to saving;

(iv) Establish credit histories: electronic payments create records, allowing transaction histories that can support borrowing by poor consumers and merchants.

(v) Empowering women - The digital nature of the payment enables the recipient to keep financial transactions private, even within a family, empowering them.

Digital financial services are believed to have a range of benefits for financial inclusion. These include (International Telecommunication Union, 2016:1-2):

- *Safety and security*: It enables poor people to store and manage value safely and with security; allowing payments in traceable and fast way. They do so without needing to protect cash as a physical asset. Cash payments are subject to delay, “leakage” (payments not reaching the recipient in full), and risk of “ghost” (fake) recipients, particularly in relation to government

[8] https://sustainabledevelopment.un.org/content/documents/2655SDG_Compendium_Digital_Financial_Inclusion_September_2018.pdf.

payments. Digital payments improve the traceability of the payment process due to the more stringent identification procedures involved, direct transfers that skip intermediate hands, digital record-keeping, and more immediate funds transfer.

- *Providing flexibility*: many poor people, including those in rural areas, receive domestic and international remittances and reach out to their social networks in times of need to obtain additional funds. However, these monies, which are critical to the receivers may not arrive at all or do not arrive in time. Besides, the transfer can be costly and funds may not be spent on the proper purpose. Digital finance reduces costs and increases coverage of remittance transfers, making remittances of small amounts by the low income viable; enables remitters to ensures that funds sent are spent for intended purpose (e.g. for savings, health, education fees, or other types of targeted accounts); allows the "poor to pay for goods and services on lay-away, pay-as-you-go, or through other payment options that more closely match their ability to pay".
- Incentivizing savings by facilitating access and interface with savings products - digital payments create the opportunity to link poor people to automatic deposits, scheduled text reminders, and positive default options that help people overcome psychological barriers to saving;
- Establish credit histories: electronic payments create records, allowing transaction histories that can support borrowing by poor consumers and merchants.
- Empowering women - The digital nature of the payment enables the recipient to keep financial transactions private, even within a family, empowering them.
- Wider outreach: they facilitate wider outreach as they can be provided by banks and non-banks (e.g. mobile network operators, 3rd party DFS providers).

Limitations of digital finance:

Digital finance as tools for financial inclusion and poverty reduction, though important, also has several limitations, especially in the context of developing countries. These include low literacy in general and financial literacy in particular, affordability, lack of or unreliable power supply (large rural and pastoral population), weak infrastructure network that supports digital finance (coverage and signal quality of connectivity, mobile network, etc.). These limitations are much more pronounced in developing countries, especially in rural areas where the necessary basic infrastructure are lacking and/or unreliable.

Another challenge is the risks involved in digital finance. Issues of transparency, risk of fraud & theft, data security (hacking, etc.), network vulnerabilities and poor technology quality pose a concern, especially considering the weak regulatory capacity in developing countries. For example, poor connectivity causes failing transactions such as lost payment instructions, and dropped messages, which, in the absence of strong regulatory protection, may put service users on the losing end.

2.2. Financial inclusion policy and strategy in the HoA

2.2.1. *Initiatives to advance financial inclusion*

That a vast majority of people have been effectively excluded from financial services due to various factors hampering or blocking their access and the need to address such exclusion has long been recognised. However, the approach was mostly ad hoc and fragmented rather than strategic and policy based. Global measures and use of strategic approaches are relatively recent. Among the notable global initiatives to promote financial inclusion are: the commitment by the G20 in the 2009 Pittsburgh Summit to improve access to financial services by the poor (leading to the creation of the Financial Experts Group to expand access to finance for household consumers and MSMEs); endorsement of the Financial Inclusion Action Pan at the 2010 Korea Summit (leading to the creation of the global Partnership for Financial Inclusion); and the UN's "Blue Book on Building Inclusive Financial Sectors for Development" under the UN International Year of Microcredit 2005. The later aimed to "build inclusive financial sectors that help people improve their lives". In September 2011, central banks and financial regulatory institutions also came together (through their commitment under the Maya Declaration, Mexico), establishing the Alliance for Financial Inclusion (AFI) with the common objective of advancing financial inclusion at country, regional and global levels.

AFI is founded on the idea that "a global knowledge exchange platform [is] key to expanding and improving financial inclusion policies"[9]. It does this by "empowering policymakers to increase access to and usage of quality financial services for the underserved, through formulation, implementation and global advocacy of sustainable and inclusive policies"[10]. The Alliance uses peer learning among members to "accelerate practical financial inclusion knowledge generation and policy development" through sharing practical knowledge, experiences and best practices. These include peer learning on different approaches to strategy development and implementation, peer review of draft strategies and action plans, guidance on national strategy formulation and implementation, support for capacity development in designing and implementing financial inclusion strategies[11]. Since then, financial inclusion has received growing attention and prioritization by policymakers and regulators, with about 90 countries emerging and developing countries advancing the agenda (https://www.afi-global.org).

A continental Africa Financial Inclusion Policy Initiative (AfPI) was introduced in 2013 with the aim to support and develop financial inclusion policy and regulatory frameworks in the continent as well as coordinate regional peer learning. It also provides a platform for public and private engagement to enhance implementation of innovative financial inclusion policies in the continent (AFI, 2019). After a decade, however, only 32 countries in the continent are members of AFI and within the IGAD region, only 4 countries (Ethiopia, Kenya, Sudan and Uganda) have joined the alliance.

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[9] AFI (2021) Global Policy Leadership Alliance, https://www.afi-global.org/about/accessed on 20 April 2021.
[10] Ibid.
[11] https://www.afi-global.org/wp-content/uploads/2018/07/FIS_FS_20_AW_digital-v2.pdf

2.2.2. *Financial inclusion strategy*

Aligning efforts to promote financial inclusion with objectives of poverty reduction, economic development and financial development is important. This requires coordination between financial and nonfinancial subsectors stakeholders, hence calls for a deliberate, coordinated and strategic approach (World Bank, 2018: 4). Cognizant of this, as of recently an increasing number of countries are adopting National Financial Inclusion Strategy (NFIS) as a policy tool, either as a standalone document or part of a broader financial sector development strategy.

The World Bank defines financial inclusion strategies as "road maps of actions, agreed and defined at the national or subnational level, that stakeholders follow to achieve financial inclusion objectives" (World Bank, 2012: 6). The Financial Inclusion Strategy Peer Learning Group of the Alliance for Financial Inclusion (AFI) on the other hand defines NFIS as a "comprehensive public document that presents a strategy developed at the national level to systematically accelerate the level of financial inclusion (AFI 2018:4). It recommends preparing an NFIS through a broad consultative process involving, among others, public and private sector stakeholders engaged in financial sector development" (AFI 2018: 4).

The World Bank (2012) advocates for a comprehensive approach to financial inclusion that includes *access to, usage and quality* of financial products and services[12]. This later refers to the "ability to benefit from new financial products and services and is linked to consumer protection and financial capability" (World Bank, 2012: 6). Accordingly, it developed a Framework that serves as reference for the design of financial inclusion strategies and for policymakers, regulators and development agencies. It introduced an initiative that aimed to achieve universal financial access by 2020, with all adults having accounts that allow them to store value and make and receive payments (World Bank 2013). The framework also provides financial support to "help catalyze private sector financing, knowledge and innovation, to spur the usage of a broad range of financial services – payments, savings, insurance, credit – by MSMEs, who are currently un- or under-banked"[13]. It has Country Support Programs and Knowledge components. The former provides technical assistance supporting "the design and implementation of key policy and regulatory reforms, financial infrastructure development, and the increased effectiveness of programs in strategic areas, such as Government-to-Person payments, and help improve the financial capability of key population segments".

The knowledge component on the other hand, supports "analysis, synthesis, and knowledge sharing in key underserved areas, such as the financial inclusion of women and individuals engaged in agriculture, and leveraging digital payments to provide access to a broader set of financial services"[14].

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[12] The Global Partnership for Financial Inclusion, on the other hand, considers impact, in addition to access, usage and quality.

[13] https://www.worldbank.org/en/topic/financialinclusion/brief/financial-inclusion-support-framework/ accessed on 26 April 2021.

[14] Ibid.

2.2.3. *Financial inclusion vs inclusive finance*

Although financial inclusion has become a buzz word, especially since the early 2010, issues are being raised whether the concept of financial inclusion is adequate. More specifically, while broadening formal access is important, it does not guarantee promoting usage and quality of financial services. The Financial Sector Development (FSD) team of Kenya, thus proposed what it considers is a more encompassing concept, namely "inclusive finance" (instead of financial inclusion). It argues that this "shifts attention from broadening formal access to improving the power of finance to drive an inclusive economy", focusing on maximising the potential value of finance in "helping people manage liquidity, manage risk and invest"[15]. Such more complex dimensions of inclusion requires a framework and metrics that take sufficient account of these dimensions, hence proposed the financial needs (FinNeeds) framework. This framework looks at how "people are meeting four core financial needs (managing liquidity and risk, achieving goals and transacting), and then looks at the extent to which formal accounts have been used to address these" (ibid).

2.3. Coverage and Integration of the financial inclusion agenda into national development strategies and plans.

Many of the IGAD countries recognize and, with support from development partners, are making efforts to advance financial inclusion. However, they are at different stages; some have formulated and are implementing national financial inclusion strategies (e.g. Ethiopia and Uganda) while others introduced financial inclusion projects (including support to develop comprehensive financial inclusion strategies). For example, South Sudan and Sudan are members of the Alliance for financial Inclusion (AFI) and introduced donor supported financial inclusion projects. Financial inclusion efforts are better pursued in coordination with and as integral part of a national development strategy and policy of a country. However, the Lack of information has precluded review of financial inclusion policies and strategies and their integration in national development strategies of all IGAD member countries. So, here we look at three countries: Ethiopia, Kenya and Uganda.

Ethiopia:

A government attempt, although modest, to promote access to savings and credit facilities in the country may be traced back to the 1960s where a legal framework encouraging SACCOs was provided. SACCOs mushroomed in both urban and rural areas during the Dergue period (promoted and inspected by the National Bank of Ethiopia) reaching 495 in 1991 with 119,799 members. Their number and membership size has increased considerably reaching 14,453 primary SACCOs (52% being rural) with 1.74 million members in 2014 (Kifle 2015: 2-3). However, with their sources of loanable funds limited to savings mobilization and income sources restricted to interest income from lending to members, their capital base and savings mobilization, remained low (compared to the potential) at birr 5.2 billion and birr …. as in May 2014, in turn limiting their contribution to financial inclusion.

[15] https://cenfri.org/articles/from-financial-inclusion-to-inclusive-finance/Accessed on 4 May 2021.

In line with its emphasis on poverty reduction, broad-based and equitable growth, Ethiopia's overarching development strategy, the GTP II (2015/16 - 219/20) in particular, had set as a target for 50% of the rural Kebeles in the country to launch microfinance institutions and to expand the network of bank branches to 5,736. The 18 commercial banks, 35 MFIs, 17 insurance companies, 5 capital goods lease companies and 18,000 SACCOs in the country also continued to improve financial inclusion. However, financial inclusion remained law; According to a joint Socioeconomic Survey by the Ethiopia Central Statistical Agency and the World Bank conducted in 2017, only 22% of adults aged 18 or above (compared to 24% for SSA) and 35% of households had accounts[16]. Hence, a more cogent financial inclusion framework was needed.

With World Bank's technical and financial support under the Financial Inclusion Support Framework (FISF), the government developed and adopted its first National Financial Inclusion Strategy (NFIS) in 2017. Its stated vision is to "achieve universal access to and use of a range of affordable and high quality financial products and services … by 2025" (NBE 2017: v). The strategy advocated for responsible financial inclusion which it argues will "contribute to financial and monetary stability, helps to combat anti-money laundering risks, supports accelerated economic growth, prosperity and social development" (NBE 2017: i). It was designed to focus on the strategic priorities and socio-economic direction of the country.

The strategy has four main components, focusing on the underlying barriers to financial inclusion in the country, namely underdeveloped financial and nonfinancial infrastructure; inadequacy of suitable financial products, services and access points; inadequate financial consumer protection; and low levels of financial capability and awareness (NBE 2017: iv). It recognizes the crucial role of (a) "convenient and interoperable access points … such as ATMs, POS, mobile & internet banking, card system, and suitable and tailored credit, savings, payment and insurance products", and (b) strong financial consumer protection framework. It also has specific and measurable targets, plan of action and monitoring & evaluation system (NBE 2017: vi).

Several relevant laws were also introduced including: the licensing and authorization of interest free banking (Directive No SBB/72/2019), the secured transactions and movable collateral registry (Directive No. MCR 01/2020), the Financial Consumer Protection (Directive No. FCP 01/2020), and a regulatory framework for non-bank financial services providers (such as use of agent).

In terms of telecommunication it targeted 103.6 million mobile telephone and 56 million internet service subscribers as well as 39.1 million and 16.9 million subscribers of broad band and narrow band internet and data service respectively by the end of the plan period. Similarly, mobile penetration, telecom density and internet& data density were planned to increase to 100%, 54% and 10% respectively (from 43.9%, 10.5% and 3.3% in 2014/15) (GTP II: 181). Ethio Telecom's business plan for the 2013 EFY (July 2020 – June 2021) is to reach a total telecom penetration of 51.3%, total subscribers of 51.1 million, data

[16] It is not clear, though, whether all these accounts are active and holding of multiple accounts by individuals has been taken into account.

and internet users to 27.5 million and broadband subscribers to 669, 400[17]. Adult education participation rate, at 74.4% in 2014/15 was planned to reach 100% by the end of the GTP II period which is important for financial literacy, hence financial inclusion. These, if achieved, indeed provide a sound foundation to enhance financial inclusion through digital financial services.

Kenya:

The long term strategy of Kenya covering the period 2008-2030. The vision 2030 aims to "decrease the share of population without access to finance" (National Economic and Social Council 2007: 10). In response to the increasing calls for financial inclusion by the international community and the need to implement the Vision 2030, Kenya passed the Finance Act 2009 which permitted the use of agent banks and other cost effective channels of financial services (Nyasha and Odhiambo 2012:91).

Use of formal[18] accounts in Kenya reached 83% in 2019 (from 29% in 2006) with slight difference between men and women (86% for men and 80% for women), probably having the highest level of inclusion in the IGAD region.

Technological change in the financial sector, which resulted in development of financial innovation, new products and new forms of transfer & payment, played crucial role in Kenya's financial inclusion. The introduction of mobile money payments and agent banking eliminated the dependence of financial services on banks. It has also allowed commercial banks to reach groups previously considered unbankable (hence had to depend on MFIs) by designing new services and products suitable to low income and the poor (Musau, Muathe and Mwangi, 2018.

Uganda:

With formal financial inclusion standing low at 28% in 2009, Uganda recognized the need for and made commitment to financial inclusion (under the Maya Declaration) and joined the AFI. The Bank of Uganda took the strengthening of financial inclusion as one of its strategic initiatives in its 2012-2017 Strategic Plan. It was a response to "financial innovations, gaps in financial education, financial consumer protection, financial deepening as well as issues of access and quality of financial services" in the country (Bank of Uganda 2013: 3). It started with a project approach, which aimed to improve access to financial services, as well as empower financial services users to rationally use their personal finances, thereby contributing to growth. The project had four focus areas, namely financial literacy, financial consumer protection, financial innovations and data management of financial services (Bank of Uganda 2013: 3).

Drawing on lessons and experiences from implementation of the national financial inclusion program and informed by an analysis of key gaps conducted for the purpose, a more coordinated and holistic

[17] https://www.ethiotelecom.et on 21 October 2020.
[18] Formal refers to banks, SACCOs, MFIs, insurance, asset finance, mobile money, digital credit apps. http://www.fsdkenya.org/wp-content/uploads/2019/07/Inclusive_Finance_headline-findings-from_FinAccess.pdf, accessed on 27 April 2021.

strategic approach was adopted through the Uganda National Financial Inclusion Strategy (NFIS) 2017-2022. It envisions for all Ugandans to "have access to and use a broad range of quality and affordable financial services which helps ensure their financial security". The strategy stresses that the end goal is to 'reduce poverty and enhance the economic security of families through usage of affordable financial services' (Bank of Uganda 2017: viii). It focused on three priority areas for inclusion, namely 'women, youth and the rural population' (Bank of Uganda 2017: iv-v).

The objectives relate to five key pillars, namely: (i) "reducing financial exclusion and access barriers to financial services; (ii) developing the credit infrastructure for growth; (iii) building the digital infrastructure for efficiency; (iv) deepening and broadening formal savings, investment and insurance use; and (v) protecting and empowering individuals with enhanced financial capability" (AFI 2019: 4). The strategy lays out the governance structure; It has a high-level Steering Committee, an Inter-Institutional Committee on Financial Inclusion and a Secretariat. The Steering Committee provides strategic direction and resources while the Inter-Institutional Committee provides technical guidance and coordinates the various stakeholders involved in implementation of the strategy and promotion of the financial inclusion agenda. It also has a Financial Inclusion Forum (which is not formal) to serve as "venue for discussion, review and debate of financial inclusion issues) (Bank of Uganda 2017: 40). It has specific targets for each of the three dimensions of inclusion (access, usage and quality) and corresponding key performance indicators. The strategy also details the implementation mechanism (highlighting the associated implementation risks), monitoring & evaluation systems and an action plan.

South Sudan:

Financial inclusion in South Sudan, the continent's youngest nation, is among the lowest (at 59% in 2019). Gaining independence at about the time financial inclusion became a buzz word, South Sudan benefited from donor support to advance financial inclusion. A UNCDF and UNDP Joint Programme, Building an Inclusive Financial Sector in Southern Sudan: 2010 – 2013, was introduced in January 2010. It emphasized the need to view "financial services for poor and low income people and micro and small enterprises… as central and integral component of the financial sector" (UNDP 2010: 8). The program included support for development of national inclusive financial sector policies, supporting the entry of new microfinance institutions and gender mainstreaming. South Sudan's National Development Strategy (2018-2021), successor to the South Sudan Development Plan 2011 – 2013, articulates "inclusive and equitable economic growth, Service delivery, Social safety nets for the vulnerable and Creation and development of markets" among its key socio-economic principles" (Republic of South Sudan, 2018:9). However, the Strategy fell short of specifically including financial inclusion among its strategic objectives and targets.

2.4. Institutional frameworks for financial inclusion in the Horn of Africa (HoA)

To achieve significant improvement in financial inclusion (in terms of access, usage and quality), financial inclusion strategies need to be supported through a mechanism for effective coordination and implementation, and for monitoring and evaluation of progress. Recently the Alliance for

Financial Inclusion (AFI) published a toolkit on monitoring & evaluation, providing practical guidance in "systematically and efficiently monitoring and evaluating progress and results of NFIS interventions aimed at promoting financial inclusion" (AFI 2021: 3). Data limitations precluded discussion on the institutional frameworks of many of the IGAD countries. Hence, the discussion in this section is limited to institutional frameworks in Ethiopia and Uganda.

In Ethiopia, in line with the high importance accorded to the financial inclusion strategy, a high level coordination mechanism, a National Council for Financial Inclusion, that reports to the Prime Minister and consisting of ministers of key institutions was established. It also established a Steering Committee and a Secretariat (housed at the National Bank) with the Vice Governor for Supervision as its secretary. It has three coordinators responsible for financial and nonfinancial infrastructure; financial products and services; and consumer protection and capability respectively. The strategy has set an implementation mechanism with specific targets, a prioritized action plan as well as a monitoring and evaluation mechanism with performance indicators (NBE 2017). It also details the major roles and responsibilities of various stakeholders including the government and key institutions, the private sector and development partners.

Uganda's National Financial Inclusion Strategy 2017-2022 is linked to the country's National Development Plan, in particular "sustainable production, productivity and value addition in key growth opportunities" and improving the stock and quality of strategic infrastructure (Bank of Uganda 2017:1). The strategy has key performance indicators related to access, usage, and quality with specific targets and an elaborate action plan. It was developed through a wide consultative process under the oversight of the Inter-Institutional Committee of Financial Inclusion (IICFI) with the participation of key government institutions[19], development partners, and representatives of civil society. Its implementation is overseen by a high-level National Steering Committee that provides "strategic vision, support and resources". The Inter-Institutional Committee of 17 key institutions (chaired by the Permanent Secretary of Ministry of Finance), supported by a well-staffed and resourced Secretariat, housed at the Central Bank, serves as the technical arm and coordination body. It has a Financial Inclusion Forum and several Working Groups. The Forum serves as a 'venue for discussion, review and debate' related to financial inclusion initiatives, allowing the sharing of knowledge, building support and obtaining stakeholders' feedback. The Working Groups serve as venues for consultation and review. While membership of the Working Group is on both voluntary and institutional representation basis, participation of the public and private sectors is ensured by having representatives from public and private sectors as co-chairs.

[19] Bank of Uganda, Ministry of Finance and Planning, Ministry of Trade and Industry, Insurance Regulatory Authority, Financial Intelligence Authority, Financial Sector Associations, and the Communications Commission.

3. Digital finance for financial inclusion in the HoA

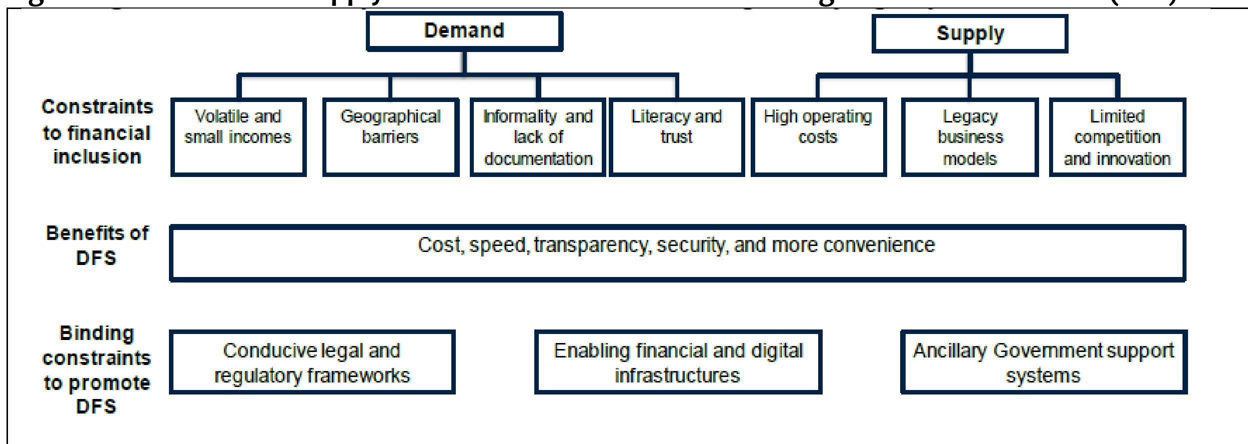
3.1. Digital finance and financial inclusion

Financial inclusion through digital financial services provides added benefits through the reduction of financial costs and speedy services. It also has proved to create more tailored financial services for the poor. According to the Global System of Mobile Associations, there are one billion mobile money accounts in 95 developing countries, processing a combined US$2 billion in transactions every day (Ndung'u,2021). However, such services are constrained by demand and supply-side factors. The supply-side constraints could be high operating costs and limited competition, while the demand-side limitations are volatile and small incomes of the poor, informalities, and geographical barriers Ceyla et al., 2020).

Regarding digital financial services, Sub-Saharan Africa (SSA) is leading the world, particularly in creating access to mobile money. About 21 percent of the adult population in SSA have a mobile money account. Africa's high share (which is 50%) of the 700 million individual digital finance users is considered one of the continent's successes stories (World Bank Group, 2018).

However, access to technology and the requisite digital infrastructure limits the growth of digital financial services (DFS). Fulfilling the enablers to DFS would bring financial integrity, stability, and competition. The enablers are beyond technological advancement and span from instituting conducive legal and regulatory frameworks to enabling financial and digital infrastructure through government support systems. The policy questions would thus be on how to enable basic digital connectivity and mobile-phone penetration, permitting access to national payment infrastructure, government data platforms, and to issue electronic money; and so on. Policymakers should also address the risks associated with the use of digital financial services (Ceyla et al., 2020). See figure 2.1 for the general demand and supply-side constraints and benefits of DFS.

Figure 2.1: Demand and supply-side constraints and benefits of Digital Financial Services (DFS)



Source: Ceyla et al. (2020)

Ceyla et al. (2020) has split the constraints of DFS as Long-standing constraints on the demand side and the supply side. The demand-side limitations are a small size and the volatile nature of the income stream of the poor. The poor require affordable, low-value financial services that allow them to deal with small, unpredictable incomes earned. Distance to financial institutions has barred the poor from readily accessing the services. Informality and lack of documentation for the poor have also been a deterrent. Supply-side issues can be more of pro digital finance. Digital finance has advantages over the traditional paper-based system as non-digital financial services rely on costly and time-consuming human and paper processes making small transactions and maintaining low-balance accounts unprofitable. The old models are for the affluent clientele and less so for the poor, while digital finance is better adaptable to the needs of the poor.

3.2. State of digital financial services and financial inclusion in HoA countries

Digital Financial Technology access, usage and quality indicators

The extent of financial inclusion could be measured both quantitatively and qualitatively. The quantitative indicators relate to the depth of access and usage of financial products and services as well as geographic distribution of the services in a country. Qualitative indicators relate to perception of the financial system and products & services among different population groups (e.g. urban, rural, women, youth, pastoralists, etc.). Access measures include number of branches, ATMs, agents, etc. per 10,000 population while usage measures include number of depositors, number of borrowers, size of deposits per depositor, size of loans per borrower, etc. Geographic distribution or coverage measures include total loans in a geographic area/region to total deposits in the area, borrowers by geographic area/region, number and geographic distribution of branches/agents in the area/region, and number and distribution of non-regulated financial institutions (e.g. MFIs, SACCOs, NGOs). Gini indexes for deposits, loans and branches are also computed (Reyes 2010).

Similarly, there are a range of uses of digital financial technology. These include receiving payments/transfers, making payments and storing value (e.g. mobile money wallets, branchless banking, e-wallets) using digital channels such as ATMs, POS, mobile-based payments for transactions, pre-paid cards, and mobile money agents/merchants. Related indicators include: percent of active digital financial service accounts, volume of digital financial service transactions, and value of digital financial service transactions. Each indicator could be disaggregated further by gender, rural/urban, type of transaction, type of payments, etc. The measures of quality of services relate to regulatory standards, dispute resolution mechanism and awareness of service users. Such indicators include disclosure requirement, number of complaints per X number of active digital financial service accounts, percent of complaints resolved, failure of transactions, disputes resolved, and financial literacy (Alliance for Financial Inclusion, 2019: 6-9).

3.3. Status of digital financial service in selected HoA Countries

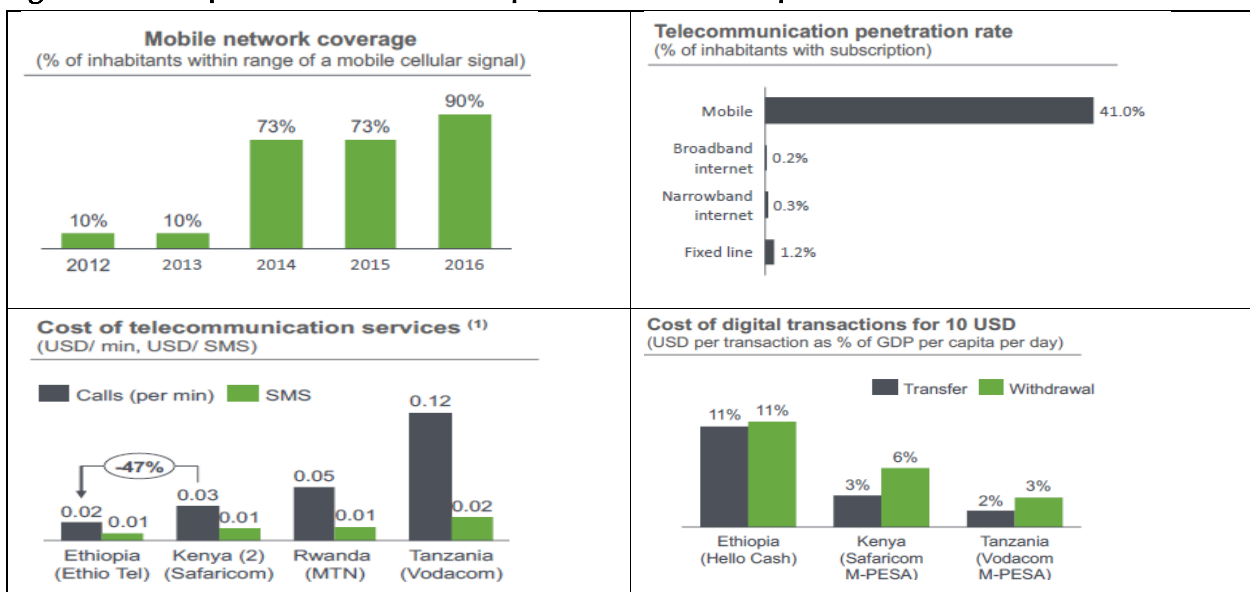
Ethiopia

Ethiopia is emerging to putting digital access to finance in place. For example, banks have around half a million digital finance transactions every day. Annual digital transactions reach up to Birr 260 billion (8% GDP). The Commercial bank of Ethiopia, the dominant player in Ethiopia's banking sector, has recently seen its customer digital transactions grow by 62 % (Cepheus Research and Analytics, 2021).

The state-owned Ethio telecom, the only network provider in the country so far, has a micro-credit service by providing airtime advance, which amounts to 2.2 million users worth Birr 1.1 billion loans each month. Similarly, Ethiopian airlines allow customers to use the mobile app and its website to buy air tickets. Now Ethio Telecom's telebirr mobile service, introduced in June 2021, is an emerging development that already attracted several millions of subscribers in just a couple of months.

The recent network expansion and replacement effort of Ethio Telecom have led to a considerable jump in network coverage (Ethiopian Agricultural Transformation Agency/ATA, 2019). The country has thus boosted its telecom coverage, reaching 95 percent of the population (from just 10% in 2012) and 85 percent by geographical area. However, issues of service quality remain. There are about 52 million mobile subscribers while internet access has reached 25 million users. About 44 percent of mobile phone owners hold a Smartphone. Generally, Ethiopia has made progress towards increasing growth rates in mobile phone usage and internet adoption. The country has embarked on Mobile wallet services. There are currently over 12 wallet services in total, including bank-specific wallets (e.g. CBE Birr and Dashen's Amole) and others based on a consortium of banks or MFIs (e.g. Hello Cash and M-Birr). The wallets serve as savings channels for those with limited or no access to formal financial services (Cepheus Research and Analytics, 2021).

Figure 2.2: Ethiopia – mobile network expansion and telecom penetration

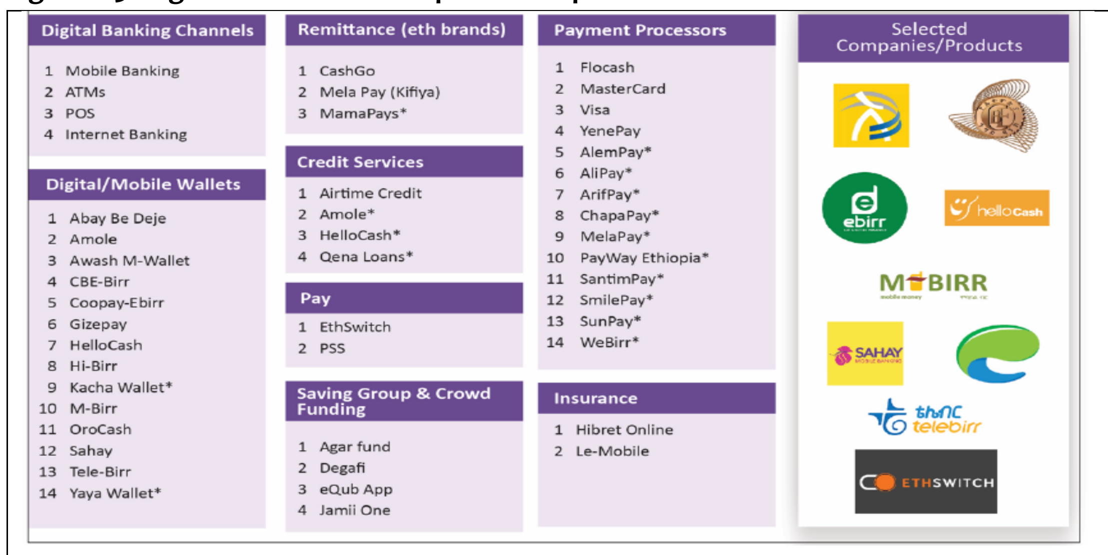


Source: Extracted from Ethiopian Agricultural Transformation Agency/ATA, 2019

Following the 2018 Ethio Telecom's downward revision of its pricing (40% for voice calls and 43% for SMS), it has turned into one of the lowest rates in the region. For instance, call rates are 47% cheaper than Safaricom's rates. Yet, in one other dimension, such as digital financial services, the rate is higher than most countries in the region. For example, transferring finance through Ethiopia's "Hello Cash "costs 50% more than Kenya's M-PESA.

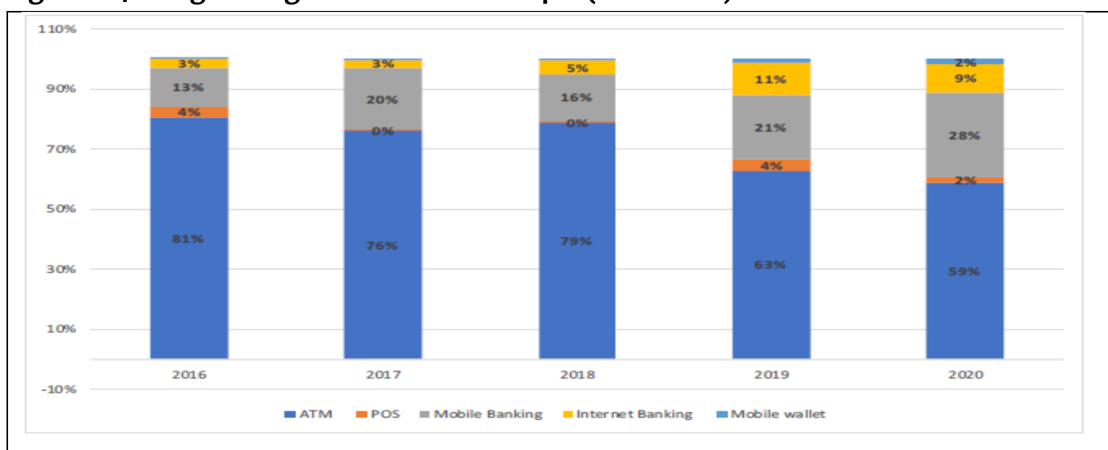
Ethiopia's mobile money usage and account ownership are hugely lagging as it is an overwhelmingly cash-based economy. For example, 99% of adults pay utility bills with cash, compared to 12% in Kenya. Usage of digital services remains low despite improvements in mobile phone ownership and network coverage. Usage of digital financial services in rural areas is dominated by Productive Safety Net Program (PSNP) unidirectional e-payments, i.e., PSNP beneficiaries using their accounts to receiving payments only.

Figure 2.3: Digital Finance Landscape of Ethiopia



Source: Cepheus Research and Analytics (2021).

Figure 2.4: Usage of digital finance in Ethiopia (% of total)



Source: National Bank of Ethiopia, sighted in Cepheus Research and Analytics (2021)

Kenya

Although the developed countries had a head start in digital financial services, Kenya managed to be a global leader in Digital Financial Services, primarily for Safaricom's M-Pesa, the forerunner in such undertakings launched in 2007. Access to formal financial services grew from 26.7% (in 2006, a year before M-Pesa was launched) to 82.9% in 2019. Today, over 86% of adult Kenyans are financially included. M-Pesa accounts for 30.2 million out of the current 30.5 million active mobile money subscriptions in the country (Airtel money and T-Kash are 0.344 million). "As of June 2020, there are 237,637 Agents providing mobile money accounts to 30.5 million active Kenyans, processing 4.8 million transactions valued at Ksh 13.1 billion per day." (Ndung'u, 2021). Kenya has made laudable progress; it followed a private-sector-led model, with flexible regulatory interventions and simplified customer due diligence (Ceyla et al., 2020).

Somalia

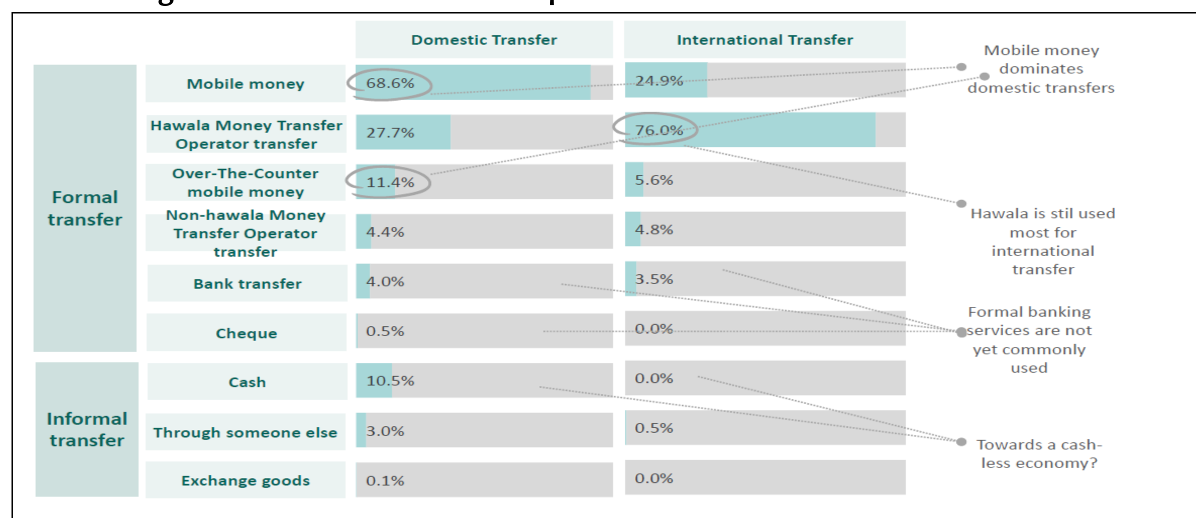
The 20 years long civil war had devastated key institutions including financial institutions, forcing citizens to depend on informal financial services providers. Somalia had no central monetary authority for about 15 years with the Central Bank of Somalia re-established in 2009. Despite (or probably because of) this, its financial sector is "fairly advanced"[20]. It has now licensed mobile-based financial service providers, a visa card, etc. According to a study by UNIDO (2020), mobile money has become the main transaction instrument with mobile money systems accounting for 26% of GDP flows (UNIDO 2020: 2).

Somalia is now a success story in the Horn region in terms of digital technology driven financial inclusion. In Somalia, about 73% of the population above 16 use mobile money services (83% in urban areas, 72% in rural area). However, the penetration rate of mobile money in each zone is dominated by single mobile money service providers (Hormuud's EVC Plus in South Central, Golis' Sahal in Puntland, and Telesom's Zaad in Somaliland) (World Bank, 2017).

Not only has the use of mobile money in the country a broader outreach but is also diverse, including payment of salaries, fees, bills and taxes; cash transfers, and online shopping. It is interesting to note that over half of salary and allowance payments are made directly to the recipients' mobile money accounts. The deposited salaries are partly used for making utility and merchant payments. 63% of mobile money users keep their funds on their phones rather than cashing out, and remittances companies work with Mobile Network Operators to transfer international money directly to mobile money accounts. Mobile money is considered speedy and convenient for Somalis, yet some do not trust them as the system remains unregulated. (World Bank, 2017). Over 88% of Somalis have at least one SIM card. Somalis have an average of 1.4 SIMs per person. Somalia's success story is interesting partly because it occurred despite (or may be because of) the lack of strong regulatory mechanism.

[20] https://www.aljazeera.com/economy/2021/8/10/somalia-sets-up-national-payments-system-as-it-rebuilds-country/ referred on 28 October 2021.

Table 2.1: Digital Financial Services Landscape in Somalia



		Domestic Transfer	International Transfer
Formal transfer	Mobile money	68.6%	24.9%
	Hawala Money Transfer Operator transfer	27.7%	76.0%
	Over-The-Counter mobile money	11.4%	5.6%
	Non-hawala Money Transfer Operator transfer	4.4%	4.8%
	Bank transfer	4.0%	3.5%
	Cheque	0.5%	0.0%
Informal transfer	Cash	10.5%	0.0%
	Through someone else	3.0%	0.5%
	Exchange goods	0.1%	0.0%

Source: Extracted from world bank (2017)

The scale of mobile money service use can be summarized in the following table.

Table 2.2: Scale of mobile service use

Pay education fees	70.2% of mobile money users
Disburse donations/charity	56.4% of mobile money users
Receive vouchers from the government	35.5% of mobile money users
Shop online (e-Purchases)	28.3% of mobile money users
Receive cash transfers from NGOs	18.0% of mobile money users
Pay government taxes	16.7% of mobile money users

Source: Extracted from World Bank(2017)

South Sudan

In its short period of independence since 2011, South Sudan has passed through several liberalization episodes. The telecom sector liberalization has been one of them. In recent years, the telecom sector has turned to a greater market concentration and weaker competition. For instance, in March 2018, Vivacell, the country's largest MNO, was shut down by the government, while in July 2017, a new telecommunications company, Niletel, was launched with the state holding a 25 percent share (World Bank, 2019).

The rules and regulations governing licenses in the country have not been consistent across the network operators. MTN and Zain operated for over a decade without acquiring an official operating license. The recurrent internal conflict has had a detrimental effect on the progress in digital financial inclusion. The civil war has reversed the initial gains as they led to the decline of network coverage and infrastructural damage (World Bank, 2019).

South Sudan's telecommunications sector suffers from inadequate network coverage and is one of the weakest in the world. Zain and MTN operators tried to fill the gap created due to the shutdown of Vivacell. They have their respective coverage area, each having a monopoly in the area, and they rarely co-exist in any area together. So, sites covered only by one operator cannot access the mobile networks of the other, and hence network reliability is put in question. While 45 percent of the population own a mobile phone, only 38 percent of rural residents do. In terms of gender, 56 percent of males own a phone, against 34 percent among females (World **Bank, 2019)**. Supply-side constraints, such as the high cost of handsets, have been the main reason for limited mobile ownership. Likewise, SIM cards ownership has been low and uneven across geographic zones (66 percent of urban residents vs. 41 percent of rural residents).

Uganda

Uganda has seen growth in its Formal financial inclusion that doubled between 2009 (28%) and 2018 (58%), triggered by development in Digital Financial Services, most notably mobile money. By 2018 seven non-bank DFS providers were serving 7.6 million users. MTN and Airtel mobile network operators are responsible for over 90% of the country's DFS transactions through their MoKash savings and loan service (MTN) and the Wewole microcredit service (Airtel). Recently agent banking has also been introduced by Century Bank, Equity Bank, and other banks. The Uganda Bankers Association has set up an interoperable platform collaborating with other banks called the Agent Banking Company (Development Works Change Makers/DFI, 2019).

Digital Financial Services have evolved for over a decade since its first appearance in 2009, operated by MTN Uganda. Other operators have also joined the market later (Uganda Telecom Ltd. in 2010, Warid Telecom and Mcash in 2012, Micropay in 2016, etc.). In 2016, Uganda amended its Financial Institutions Act to permit agent banking. And in 2017, Uganda issued an agent banking regulation (Alliance for Financial Inclusion, 2019).

Between 2009 and 2018, Uganda's formal financial inclusion has improved from 28 percent in 2009 to 58 percent in 2018, mainly by digital financial services in the form of mobile money. The ecosystem comprises mobile network operators (MNOs), commercial banks, non-bank financial institutions, the BoU, third-party operators, and technology providers. As of 2018, seven mobile money service providers were active in Uganda (namely: MTN Uganda, Airtel Uganda, UTL, Africell, M-Cash, EzeeMoney, and Micrpopay). Uganda has used digital financial services in refugee camps. For instance, in 2017, UNCDF partnered with Danchurch Aid, and Airtel Uganda had used digital means to make cash-based transfers to refugees living in the Bidi Bidi refugee settlement (Alliance for Financial Inclusion, 2019).

Table 2.3: Mobile money Products and Services in Uganda

Product	Description
Domestic money transfer	Cash-in/cash-out at agent locations
International money transfer	Partnerships with money transfer operators (MTOs) to send remittances to a mobile wallet
Airtime top-up	Purchase of prepaid and postpaid airtime
Data top-up	Purchase of internet data bundles
School fees payments	Pay school fees directly from a mobile wallet
Savings	Save and earn interest on the balance in bank savings account linked to a mobile money wallet
Credit	Access credit directly through a mobile wallet
Insurance	Pay insurance premium and receive claims using mobile money
Utility payments	Pay for power and water
TV subscriptions	Pay for TV subscriptions
Bulk payments	Business-to –Person and Government-to-Person fund transfers
ATM withdrawals	mobile money withdrawal without use of cards
Mobile Ticketing	Airline tickets, sports betting, etc.
Merchant payments	For fuel, goods, health services, etc.
Mobile money linked to bank accounts	Funds pulled from bank accounts to mobile wallet and pushed from mobile money wallet to bank account

Source: (Alliance for Financial Inclusion, 2019)

Some of the constraints to digital financial inclusion in the country are that payments service providers and FinTech companies operating in the payment space without being regulated; financial service providers rely on their bilateral deals amongst themselves to ensure interoperability; card networks remain largely unintegrated, and card infrastructure is relatively tiny with frequent network failures.; limited acceptance of digital payments by merchants implies that clients have to cash out e-value to make payments with additional charges; rural areas still have limited or no mobile networks or internet access. In addition, 42.2 percent of the population do not have access to any power source, and only 28.9 percent have access to the primary electric grid. Low levels of financial and digital literacy (financial and digital literacy levels in Uganda were 24 percent and 55 percent, respectively, in 2017) limit the adoption of digital financial services (Alliance for Financial Inclusion, 2019).

3.4. Challenges and opportunities to advancing digital financial inclusion in the HoA

Both supply and demand side factors are at play. The former includes limited availability of and access to digital technology infrastructure, access to and affordability of digital finance technology (including digital finance platforms) and connectivity, policy incentives as well as safety and security issues. The later includes users of digital finance platforms and digital financial services, incentives/disincentives to use digital financial services (including cost-benefit considerations of digital channels compared to conventional channels), and constraints on growth of demand for digital financial services.

Challenges

In most IGAD countries, development of digital infrastructure and coverage, adoption of digital technologies in general and digital finance technologies in particular as well as speed and reliability of digital connectivity remain at very low level. These are attributable to a number of factors which include: inadequate investment in digital infrastructure and skills development in digital technology, limited availability and reliability of electricity, low literacy in finance (digital finance in particular), and low income of a large section of the population.

As Abell et al (2021) argued, the underlying problem in many developing countries is the lack of an enabling "ecosystem in which innovation can thrive in a transparent and corruption-free environment". The eco system includes *users* ('consumers, businesses, government agencies and non-profit organization'), *providers* ('banks, other licensed financial institutions, and non-banks'), *infrastructure* (financial, technical and other) and enabling environment (government *policies, laws/regulations and standards)* (International Telecommunication Union 2016: v). The lack of ecosystem is partly attributed to 'lack of consistent and coherent policies' that facilitate digital transformation as well as cumbersome organizational practices and bureaucracy that are not conducive to development of such ecosystem (Abell et al 2021: 2). Besides, digital development initiatives are not sustained largely due to countries' inability to afford the costs involved. The result is widening inequalities in digital technologies between developed and developing countries (Abell et al 2021).

Unequal access to information and communication technology (ICT) constitutes another major challenge that threatens to widen the inequality gap in the region within a country and between countries. The inequality occurs across geography, age, gender, income, etc. groups. For example, children from socio-economically disadvantaged children, children in rural areas and pastoral and agro-pastoral communities lack access to computers, mobile phones, internet connection, etc. The gaps are even more pronounced in terms of the "quantity, variety and quality of ICT tools available"[21] (OECD 2015: 125). Together, they limit their ability to effectively exploit the opportunities that digital technology offers including access to information, resources (e.g. education materials, online learning) and financial services.

Opportunities:

Several opportunities that could be built on to promote financial inclusion using digital technology could be identified. These include:

- Increased desire on the part of customers to adopt digital financial services (e.g. cashless and contactless modes of payments and making transfers) resulting from the need to limit the spread of the covid pandemic through handling of cash and bank transaction documents,

[21] https://www.oecd-ilibrary.org/docserver/9789264239555-8-en.pdf?expires=1632386170&id=id&accname=guest&checksum=F3422B4AA01FEDAFD79BCADC4F5F763F/ referred to on 23 September 2021.

frequent personal visits to bank branches, etc. This, together with the low cost and time-saving involved, offers opportunity to expand digital financial services without being constrained by number of bank branches;

- Partly facilitated by a growing youth population, rapid growth of mobile phone users;
- Increased simplification of digital financial services to be delivered on simple mobile devices (not requiring smart phones and large capacity);
- Presence of successful experience in digital finance inclusion in the context of the region (especially in Kenya and Somali) that IGAD countries could learn from;
- Availability of various initiatives to support (e.g. Global Alliance for Financial Inclusion, World Bank and others) developing countries to promote financial inclusion;
- Setting of global standards and data protection and security for digital financial services that reduce the risks (perceived and real) to users of digital financial services;

4. Recommendations

- Assess the state of digital infrastructure in the IGAD countries (in terms of access, speed, affordability, and reliability of connectivity) to avail digital financial services and take evidence-based measures (policy, investment, etc.) to fill identified gaps;
- Analyse the policy and regulatory frameworks and capacity of IGAD countries in the area of digital finance and take appropriate initiatives;
- Initiate measures to promote digital literacy/skills and digital financial services that advance financial inclusion;
- Ensure that disadvantaged groups are not left behind and inequality widened (across geography, gender, income, age, etc.) with the expansion of digital finance;
- Forge partnerships globally and within the region with stakeholders to advance financial inclusion and reduce inequality.

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