Financial exclusion particularly affects the underprivileged: more than two billion people around the globe (and among them more than 50% of the poorest, mostly women) have no access to formal financial systems. Experts estimate the current financial gap for SMEs in developing countries to amount to USD 2.2 trillion.

Facilitating access to financial services "for all" has therefore been laid down in the 2030 Agenda for Sustainable Development as a stand-alone target (SDG 8.10).

The potential of digital payments
Digital payments (e.g. via mobile phones and alternative payment points such as kiosks, petrol stations etc.) can reduce transaction costs for cash receipts and cash payments by 90% and more. This cost reduction turns population groups and companies that cannot generally be reached via traditional channels into economically attractive target groups – especially in view of the fact that by now nearly one billion people without bank accounts are in fact in the possession of a mobile phone.

The use of digital payments can also increase the chances of being granted a loan. The digital trail of regular payments enables lenders to assess credit worthiness. This stands to particularly benefit low-income households (e.g. small farmers) and informal SMEs, who are often unable to produce traditional securities or reliable bookkeeping.

Moreover, efficient and secure payment transactions benefit the overall economy: they reduce transaction costs in the real economy and therefore increase efficiency and competitiveness. Digital payments also boost transparency and can therefore help reduce corruption, money laundering and tax evasion.

Systemic and regulatory prerequisites
Unleashing the full potential of digital payment systems requires a number of systemic and regulatory prerequisites to be in place, including:

- broad access to mobile phones, mobile networks;
- an ubiquitous network of financial access points, including agents;
- secure digital payment systems (which meet industry standards to ensure interoperability across providers);
- robust and reliable data transfer systems for service providers (usually broadband backbone);
- an efficient national payment system including interbank payment system(s) (real-time gross settlement systems);
- effective infrastructures for customer identification and the exchange of credit information (credit bureaus) as well as
- appropriate and risk-based regulatory frameworks that promote innovation while safeguarding consumers (well-functioning financial services supervision, data protection and deposit protection systems, level playing field between traditional players and new market entrants).

Conclusion: complex systems with high potential for development cooperation
Broadly accessible digital payment systems are key building blocks for inclusive growth and competitive economies. They are also particularly well suited to enhance access to finance for poorer and underprivileged population groups. Realizing the full potential of digital payments requires acknowledging the complex systemic interconnections and dynamics of digital payment ecosystems.

Note: this paper reflects the opinion of its authors and does not necessarily represent the position of KfW.