The theme for Financial Inclusion Week (FIW) 2022 was “Inclusive Growth in a Digital Era.” For years, financial products and services have been moving digital, and the pandemic further accelerated the trend toward digitalization. As digital becomes the new norm, we must ensure that these services are safe and inclusive of all people and do not exacerbate exclusion of marginalized and vulnerable groups. FIW 2022 explored how the global financial inclusion community can harness digital innovation to expand inclusive financial services for all people across the globe, ensuring that products meet customer needs, have appropriate safeguards in place, and contribute to inclusive economic growth.

FIW 2022 hosted 125 live and on-demand sessions, featuring nearly 400 speakers from around the world. With over 3,330 registered participants from 2,000 organizations and 146 countries, FIW 2022 was the largest event to date.

WHY FOCUS ON CBDCS AND CRYPTO

The Global Findex 2021 found that while account ownership increased from 51 percent to 76 percent over a ten-year period, more than 1.4 billion people continue to be unbanked—most of whom live in developing economies, are low-income, and have little or no formal education. These populations are also highly susceptible to natural disasters and other shocks that trigger loss of income and assets and impact food security and resilience. The United Nations Office of Disaster Risk Reduction estimates that developing economies are 76 percent more likely to be impacted by natural disasters than their developed counterparts, with the impact being four-fold higher. Given this, governments need efficient mechanisms to reach vulnerable populations and distribute emergency cash, often through digital channels. However, because many people do not have formal IDs, governments often struggle to identify the unbanked.

To combat this, central banks across the developing world are experimenting with central bank digital currency (CBDC), a programmable digital currency and sovereign legal tender. According to central banks and other proponents of CBDCs, retail CBDCs—those issued to consumers—can improve the efficiency and competitiveness of the financial sector, ensure financial stability, and advance financial inclusion. The Bahamas and Nigeria have issued CBDCs, and Ghana, South Africa, and Eastern Caribbean Central Bank are currently piloting them. The IMF estimates that as of July 2022, more than 50 percent of central banks across the world have been researching or developing CBDCs. However, others—such as stablecoin providers—are less enthusiastic about the benefits of CBDCs.

In addition to critically examining the potential impact CBDCs could have on financial inclusion, a few FIW sessions addressed the evolution of blockchain-enabled Web 3.0 technologies. Web 3.0 technologies have helped establish new structures of ownership, incentives, collaboration, and decentralization, which can help democratize access to financial services. The application of Web 3.0 can enable the unbanked to tap into alternative sources of finance and crowdfund collateral, often across jurisdictions and at a far lower cost. While blockchain-based solutions have limited applicability in the context of domestic CBDCs, they do have the potential to facilitate cross-border transactions.

Several FIW 2022 sessions critically examined how these technologies could solve some of the persistent challenges low-income communities face in accessing financial services.

WHAT WE HEARD AT FIW 2022: KEY TAKEAWAYS

1. **CBDCs have the potential to bring several welfare-enhancing benefits.** Created and funded by central banks, CBDCs are a technologically advanced form of fiat currency that offers a safe and instantaneous way for governments to transfer cash to those who need it most, with minimal leakage and no credit or settlement risks. CBDCs have the potential to make countries’ domestic payments system more efficient and competitive, improve financial stability, and help advance financial inclusion and meet broader development goals. Notably, CBDCs can be built on the existing payment infrastructure which does not require a significant investment.

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CBDCs and Crypto

2 CBDCs can facilitate cross-border transactions at a very low cost. Blockchain-enabled models can help create innovative mechanisms to ensure coordination and compatibility among central banks in a cross-border context. On a cautionary note, while many central banks are committed to maintaining minimal or no fees, the cost of CBDC implementation is often absorbed by providers and intermediaries. When designing CBDCs, central banks should carefully consider the costs and ensure a viable business case.

3 CBDCs are not a silver bullet and may not work in all contexts. For some countries, CBDCs may not be a priority or even feasible. Many developing countries are cash-based economies with limited physical and digital infrastructure. This can create adverse effects—for example, Nigeria launched the e-naira but nearly half of all Nigerians do not have access to grid electricity and the CBDC only further widened the digital divide. Central banks must assess whether the country’s infrastructure is ready for CBDCs. In some cases, investment could be better spent on building resilient infrastructure that helps governments respond to low-income consumers’ needs.

4 Central banks and governments both have a critical role to play for CBDCs to succeed. For CBDCs to advance financial inclusion, several policy changes are needed, including building physical and digital infrastructure, national identification systems, and centralized data registries to close the digital divide; conducting financial literacy programs focusing on women, rural, and other vulnerable consumers; and promoting interoperable, open, and competitive networks with strong supervision and built-in data privacy and protection safeguards. Governments also have a role in incentivizing use through social program spending.

5 Web 3.0 can create new pathways to financial inclusion and regenerative economies. Applications based on Web 3.0 can solve many developmental challenges, including unlocking value for smallholders (EthicHub), building identity-led credit scores with users having more control over their data (Masa), and creating circular trade and opportunities for mutual credit (Resource). However, successfully implementing Web 3.0-based applications will require new infrastructure, extensive communication, and trust-building with traditional investors who remain skeptical.

Looking Ahead: Areas of Future Research

1 To what extent can new digital currencies meet the needs of low-income, vulnerable populations? While the enthusiasm surrounding CBDCs and cryptocurrencies is justifiable, more research is needed to understand their merits, limitations, and the extent to which they can upend the benefits of existing solutions like mobile money.

2 Should CBDC investments be prioritized in developing countries? While CBDCs hold promise, research should be done to understand what is needed for CBDCs to be successfully implemented in developing countries, how countries should prioritize investment decisions, and the role of public-private partnerships.

3 To what extent can CBDCs save costs? More work should be done to understand the cost savings that come from replacing cash versus the expenses incurred in implementing CBDCs. Given that cash is likely here to stay, the costs of maintaining cash, cash loss, and damage must be considered.
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Can CBDCs Be a Saving Grace for Vulnerable Populations in LIC Amidst Shocks? A Debate: Michaella Allen, Senior Associate at Cenfri, and Bejoy Das Gupta, Chief Economist at eCurrency, debate this question to get to the heart of whether CBDC could feasibly be a realistic option for weakly digitalized economies, and if so, how.

Empowering Communities Through Web3 and Decentralization: This session discusses Web3.0 technology and its potential to create new pathways to support financial inclusion and regenerative economies.

Hope v. Hype: The Case for Central Bank Digital Currencies and Financial Inclusion: A panel of experts representing the legal side, private sector, and field-level central bank experience discusses the pros and cons of CBDCs, while evaluating the operational and infrastructure, financial, legal, privacy, and behavioral challenges.

Masa: Bringing Credit to Billions through Blockchain: Highlights how Masa utilizes on-chain identity to create a new credit system to unlock capital for the masses and the disruptive opportunity to create a more inclusive financial ecosystem.

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