Do central banks have a role in financial inclusion?

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A lot of central banks certainly think so ...

58 countries
formal policy commitment to greater financial inclusion

46 led by central banks

Maya Declaration of the Alliance for Financial Inclusion, 2016 data
Monetary policy: the primary central bank role

It is to ensure that:

• in good times the amount of money grows at a rate sufficient to maintain broad stability of the value of money

• in bad times the amount of money grows at a rate sufficient to provide the liquidity ... to meet ... the unpredictable swings in demand for it

Mervyn King, former Governor Bank of England
• The principal object of the Bank shall be to formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices.

• The Bank shall foster the liquidity, solvency and proper functioning of a stable market-based financial system.

• Subject to subsections (1) and (2), the Bank shall support the economic policy of the Government, including its objectives for growth and employment.
Proposition 1

Stability concerns mean that central banks necessarily have a role in financial inclusion.
Long-term market development is associated with expansion - inclusion
Financial inclusion gone wrong: US sub-prime

CONTRIBUTIONS TO HOUSING MARKET BUST
Number of home foreclosures by type of financing

Subprime share of total mortgage originsations*

Source: DataQuick
Financial inclusion gone wrong: *microlending*

**South Africa**

- **2002**: three microlenders collapsed
- Run on sixth largest bank (BoE)
- **2015**: African Bank rescued by Reserve Bank
Financial inclusion gone wrong: *perils of informality*

Albanian pyramid schemes

- Two-thirds of the population invested
- Half the country's GDP
- Rioting followed collapse
- Government fell
- 2,000 people died
Proposition 2

Stability and inclusion have a long-term virtuous relationship.
Stability is a *sine qua non* of real inclusion

- **Short-term:** trade-offs between inclusion and stability
- **Long-term:** inclusion without stability is illusory
Does inclusion support longer term stability?

- Increased stability
- Greater scale and efficiency
- Increased economic stability
- Sector political legitimacy
- Diversified deposit base
- Diversified credit portfolios
Proposition 3

Central banks have a core role to play in financial market development.
Developing inclusive financial markets

Building trust
CBK’s role in Kenya’s inclusion journey

- 2005: Microfinance Act
- 2006: No objection to ‘M Pesa’ launch
- 2007: No objection to ‘M Pesa’ pilot
- 2008: Agent banking introduced
- 2009: National Payment System Act
- 2010: Credit information sharing
- 2011: Mobile based KYC
- 2012: Payments regulation commenced