



Digital payment transactions

Digital payment transactions connect people and enable sustainable development in many areas

The impact of digital payment transactions extends beyond the financial sector

Whether in Berlin or a rural village in Africa, financial transactions are now carried out around the clock using mobile communication networks and online. Digital payment transactions in particular can help connect population groups previously unreachable by the financial sector to the formal financial system and, as well as offering them affordable and quick money transfers, can make it easier to grow savings and facilitate access to loan and insurance providers. Taken together, these measures strengthen households' resilience to shocks such as disease or natural disasters and can prevent vulnerable people having to sell their assets or cut back on important food, health and education expenditure in an emergency.

Declining poverty in Kenya through 'mobile money'

In Kenya, the Consultative Group to Assist the Poor (CGAP) estimates that, over a period of six years, 186,000 families (up to two per cent of all Kenyan households) have been able to escape poverty through a mobile money account with the provider M-PESA.

Digital payment transactions also have a positive impact on other sectors and achievement of development goals. For example, digital payment systems have already helped give 8.5 million people access to a cleaner and more reliable en-

ergy supply by means of solar systems. Digital payment systems also create transparency, which is key to combating corruption, money laundering and terrorism financing. In the humanitarian field and the public sector, digitalised transfer payments increase efficiency. For example, within four years, the Indian government has saved almost USD 9 billion by digitalising the transfer of social benefits, while Tanzania has collected nearly USD 500 million more in taxes every year. Digital payment transactions can also increase the transparency of supply chains and help ensure fair wages, for example in the textile sector, by making salary payments digitally verifiable and visible.

Inclusive payment transactions require active design and cooperation

Private sector stakeholders in the financial sector are the main drivers of the development and implementation of innovative transaction solutions. By expanding the internet and mobile communication networks, they constantly open up and connect new pathways for national and international payment transactions (interoperability) and, with innovative information, communication and card technology and payment applications, create new ways to transfer funds over long distances within seconds. Innovation is also happening outside the regulated and supervised part of the financial sector. For example, blockchain-based cryptocurrencies and payment systems offer new scope to transfer funds digitally and in real time without a central financial intermediary, such as a bank or the state.

Sustainable development and inclusiveness require a high standard of consumer and data protection and the compatible, secure and stable digital payment transaction systems (IT and cyber security). Systems must also comply with the principles of responsible financial inclusion, with a particular focus on educating and training customers so that they can protect themselves against over-indebtedness, fraud and identity theft in significantly faster digital transaction processes. Public stakeholders and development partners have crucial responsibilities and roles to play in this context.

Engaging German development cooperation

German development cooperation is committed to establishing favourable political and regulatory framework conditions and, in particular, implementing data and consumer protection and standards for combating money laundering and terrorism financing. Adequate payment transaction solutions are developed through cooperation with the private sector and investment in modern sales outlets, innovative payment technologies and interoperability. Training measures are also being developed to help population groups make effective use of digital financial services.

Investments in digital transactions

Through the Partech Africa fund, KfW invests in innovative fintech start-ups in the field of financial inclusion and other sectors, such as energy and trade. Establishment of the digital transaction system is promoted in developing countries through equity investments. Investments, such as in fintech company Yoco, allow small and medium-sized enterprises and their customers in South Africa to make smartphone-based card payments.

Recommendations for stakeholders in international development cooperation

- Financing and developing digital identification systems
- Supporting regulatory and supervisory authorities in assessing new technology such as blockchain
- Promoting and financing interoperable systems for payment transactions
- Promoting data protection to safeguard privacy and foster transparent and fair provision
- Advising regulatory and supervisory authorities on connecting non-banks to the regulated digital transaction system
- Promoting innovative payment transaction solutions that also strengthen development in development cooperation areas such as renewable energies, migration and displacement, health, education and agriculture

Published by Federal Ministry for Economic Cooperation and Development (BMZ)
Division 110

As at: 11/2020

Contact: RL110@bmz.bund.de
www.bmz.de

Address of BMZ offices
BMZ Berlin
Stresemannstraße 94
10963 Berlin, Germany
T +49 (0)30 18 535-0

BMZ Bonn
Dahlmannstraße 4
53113 Bonn, Germany
T +49 (0)228 99 535-0

Edited by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany

Economic and Social Development, Digitalisation Division
Financial Systems Development Sector Project

Contact: sv.fse@giz.de
www.giz.de