



PHOTO: IMF

## Champion of Inclusion

*Benno Ndulu discusses why more people should have access to financial services*

**BENNO NDULU** is governor of the Bank of Tanzania and a champion for financial services for the poorest and most disadvantaged segments of society. As the current chair of the board of the Alliance for Financial Inclusion, whose membership includes more than 90 developing economies worldwide, Ndulu has helped pioneer some of the most innovative policy approaches to extending the financial system to the unbanked. Under his leadership, the Bank of Tanzania licensed its first two credit reference bureaus to reduce lending risks while boosting credit to the private sector and supported the use of mobile technology as a means of bringing more people into the banking fold.

With a doctorate in economics from Northwestern University in the United States, Ndulu has worked for the World Bank in east Africa and was instrumental in developing the African Economic Research Consortium, a pan-African economic policy organization.

In this interview with *F&D*'s Bruce Edwards, Ndulu points out that behind every equitable financial system stands a good central banker.

**F&D:** Financial inclusion has received a lot of attention of late. Where do central bank governors fit into that discussion?

**BN:** Within the continent of Africa, central banks have tended to be champions for pushing the cause of financial inclusion, and it's not by accident. You cannot have an effective monetary policy without having a much bigger proportion of the population included in the money question itself. So financial inclusion—or extending the inclusion of the unbanked into the system—brings a lot more finances to be influenced through policy into the system.

That's one main reason. The second is simply that the goal of poverty reduction, or even eradication where possible, does require that the constraints on access to finance be resolved. And the financial sector by and large has always been in the ambit of central banks. Central banks take care of not just monetary policy—they also supervise banks and are in charge of payment systems. So a good number of central banks have added financial inclusion to their mandate.

**F&D:** Who is least likely to have access to financial services in Tanzania or the region more broadly?

**BN:** First, it is the rural population. That would be probably the lowest on the ladder of financial inclusion or the maximum financial exclusion. Next would be women. There's the urban-rural divide and the gender divide in financial inclusion, and both of those gaps need to be filled.

**F&D:** Do you think that the demographics of this issue are different in the east African region than they are in other regions in the world?

**BN:** Yes. I think it partly has to do with the cultural practices in terms of what is expected from women in managing finances. We still have to deal with those issues even as we solve the problem of platforms for delivery of services. And they are important issues that need to be tackled.

**F&D:** In your role as the chair of the Alliance for Financial Inclusion, how much influence do you (or the Alliance) have on policymakers in the region?

**BN:** The Alliance to a very large extent is an alliance of policymakers. There are three ways in which the Alliance has made a big difference among its members. One is peer learning. There is no substitute

for learning from peers about what they do and how they've solved their problems. Since we are all focused on financial exclusion as a challenge, we have been learning from each other across regions of the world—because it's not just for Africa, it includes Asian and Latin American members. Even some countries in eastern Europe, including Russia and others, are also part of the Alliance.

The second is peer pressure. We make commitments as a group, and we always report progress on implementation of those commitments. And countries like to drive each other by showing that they've made progress, and they typically get more pressure that way.

Third, it is an important instrument for coordination with other stakeholders, with private sectors and telecommunications companies as key players. And finally, within the Alliance, all members feel equal. So it's really learning from each other and not being forced to do things. And that has made the Alliance for Financial Inclusion very special.

**F&D:** The region's countries face a number of issues, such as low commodity prices and the tightening of financing. How high a priority is financial inclusion?

**BN:** Financial inclusion is very high up on the list, partly because we all know that in order to reduce dependence you really need to diversify your economy, and access to credit is an important obstacle for those small- and medium-scale enterprises that typically help countries achieve that objective. Even the rural areas themselves now are diversifying; it's not all agriculture. And I think the youth population generally, even in rural areas, would like to make sure that they have other opportunities besides those that are purely linked to commodities. So it is important to address the major constraints, which are access to finance and utilization of finance.

**F&D:** It's interesting how you place central bank governors at the center of this issue, and yet we hear very little from bank governors in the discussion. Why do you think that is?

**BN:** Well, in fact, when you go to the Alliance for Financial Inclusion, most of the key members are central bank governors and their associates. But there are differences across countries. The governors that have decided to be bold in terms of accepting innovation to lead—and particularly digital innovation

to resolve financial exclusion challenges—have also tended to be more vocal in embracing the issue. But there are those that have wanted to stay closer to the traditional way, which is, "I will not allow innovation until I'm sure there are no risks." Then movement is much slower.

**F&D:** Is there political risk attached to financial inclusion or inclusive policies? Is this something that is popular, or would politicians rather just stay away from it?

**BN:** Well, generally I think it's popular. If there is one thing that reduces agitation, it's inclusiveness. And there's no politician that loves agitation. Particularly now that youth in our region are a big factor in relation to unemployment and expectations, it is important that inclusive policies offer opportunities for all to be able to make a living and stay away from trouble.

**F&D:** In your own country, Tanzania, are you satisfied with the advancements that you've made in terms of financial inclusion?

**BN:** Yes. We have made tremendous progress in the last 6 or 7 years with the adoption of digital technology. For the first 50 years after independence, we were able to move only about 9 to 10 percent of the population into the formal sector. Within a span of 7 or so years we have increased that number to almost 60 percent. This has been possible partly because of the mobile money platform, and now digital IDs, as a way of making sure that one gets access to credit and making "know your customer" [the process of identifying and verifying the identity of a bank's clients] policies easier. And, of course, we've made progress in reducing the cost of financial services and improving convenience. Those are all really important ingredients of the success that Tanzania and other countries in the region have enjoyed.

**F&D:** But with financial technology come risks. How can one regulate that sector without negating its benefits?

**BN:** Well, the risks are there, and they have to be managed. Those who want to avoid risk don't allow any risky innovation to help them. But those who are ready to manage risk do so by making sure that the integrity of the systems is secured. **FD**

*This interview has been edited for clarity.*